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AMERICAN BANKERS JOURNAL

Playing Card Currency

Cover Story on Page V

Published in Two Sections—Section One second section missing

Playing Card Money

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

LIKE many other trials and tribulations in the new world, the playing card money of French Canada came into existence because kings and such-like in the old world thought that war was the thing!

While wars raged in the old world, using up men and material, the pioneers in Canada had a sorry time of it trying to get along with little help from the mother country.

The currency came from France—when it came. Always there was delay. The funds for 1685 were not allotted until January, and did not reach Quebec until August. Long before that the Quebec treasury was empty and the supplies had been exhausted.

Desperate measures being necessary Demeulles, the intendant, devised the new medium of exchange. "He secured packs of cards," says Herbert Heaton in the American Economic Review, "and cut each card into quarters. On each piece he wrote the value at which the card was to circulate—15 sols, 40 sols, or 4 livres—added his initials and seal, and then paid the cards out to those soldiers and officers who were unable to obtain work. The cards were made legal tender; prices must not be raised to those who wished to make payment in cards; and the whole issue was to be redeemed when the King's ship brought the delayed funds. This promise was faithfully kept, for in early September the intendant ordered that all cards be returned within eight days, in order to be exchanged for coin."

That was the beginning, but again and again the authorities had to resort to playing card money, especially during the war of the Spanish Succession, 1702-13. Then this currency increased in volume and coins went out of existence.

So acute was the need of metal of value that of one governor it was recorded: "If he learns that a man has a silver spoon or fork he sends and seizes it and forces him to take a card in payment."

THIS month's cover illustration is our artist's conception of what must have been a common incident in those particular days of playing card money.

AMERICAN BANKERS ASSOCIATION JOURNAL

The Invisible Banking System

By COL. LEONARD P. AYRES
Vice-President, Cleveland Trust Company, Cleveland, Ohio

Credit Inflation Manifests Itself in Turnover of Deposits. American Method of Operating Call Money Market Considered Responsible for Phenomenon of Great Unofficial Financial Structure Which Is Believed to Present Serious Situation.

THE simplest possible definition or description of business is that business is the exchange of money and credit for goods and services. If a step further is taken and it is elaborated just a bit more on the money side it would be said that it is the exchange of money and credit at varying rates of turnover for goods and services at different price levels, because, clearly, money that is turned over rapidly will do more financial work than money that moves slowly and, on the other side, prices clearly are involved in that summary of business.

So with that start-off of four elements, money and its turnover being exchanged for goods at its varying prices, I tried to make some inquiry to find out which one if any one of those four fundamental elements was out of balance in these present days.

In the first place there is presented here a chart (No. 1) in which each one of the upright sections represents a year, beginning with 1923 and running over into the beginning of 1929, showing the money part of that equation of business exchange, as the economists call it.

The upper line represents the demand deposits monthly for reporting member banks in this country. If we take the average for the period as being 100 and represent all the monthly divergences from that as differences above or below 100, the heavy line, of course, being the 100 line, demand deposits were relatively low in 1923, arose rapidly in 1924, and since that time have run along with something of a definite upturn at the end of 1927 and down again, but with no considerable variation from that same general level.

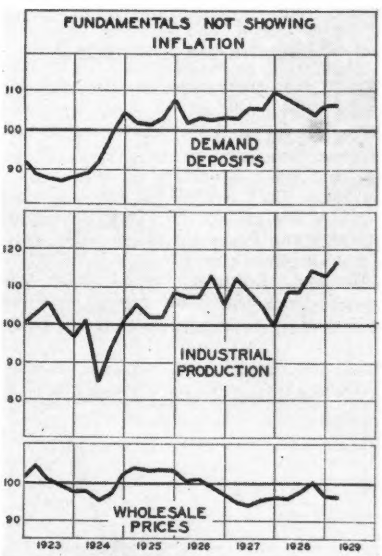


Chart No. 1

No Inflation

SO that we can say, here at least, as we measure the amount of active deposits used for business purposes, that we see no tendency of boom or inflation.

Then I took the industrial production index of the Federal Reserve Board, the second line, treating it the same way, showing its fluctuations monthly for the same period, and again doing it on the hypothesis that the average for 1923-29 equals 100 and the variations are more or less than that 100 line.

We see clearly marked the depressed period of 1924. We see the indication of the genuine dip in business activity in 1927; the adequate and even considerable recovery; we see a general upward tendency through this period. But I think we should agree once more that we have here nothing that looks like boom or inflation, or a situation that should demand unusual credit accommodation.

Lastly, I moved down to the lower part of the chart to the price level, taking the wholesale price index of the Federal Bureau of Labor Statistics and I did the same thing once more, and once more with the same general conclusion that while there are fluctuations the significances of which we might follow out with interest, still there is nothing there that could be considered as inflationary in character.

The Fourth Element

SO here we have taken care of a quick review of three out of the four elements. Our four elements of this business exchange were money and its turnover, and goods at their prices. We have the goods and the prices, but not the rate of turnover, or, again, what the economists call "the velocity of circulation."

One reason why we are not particularly interested in that ordinarily is that it is not a datum which is reported in the weekly or monthly reports of our

banking systems. We never see anything in the newspapers about velocity of circulation or even about turnover of checking deposits, and probably the main reason why we do not is that ordinarily that is something that the economists work with in theory but which does not change sufficiently rapidly or through wide enough swings to elicit their current interest, the current attention of business people. It usually here and in other countries is a very stable sort of a figure.

There are two figures in our weekly reports of banks which we may use to compute the turnover. One of them is, of course, the debits to individual accounts because that is the total of the checks drawn. But the only thing you can draw a check against is a demand deposit. So the other figure is the figure for demand deposits, and if you take for any given month the aggregate of the checks drawn and divide it by the deposits, you find out, of course, how many times those deposits were checked out and brought back into the banking system on the average during the month at the turnover.

Most of the time since the war such a division would have given an answer of about three and if it were just three it would mean that the average dollar of demand deposits had been checked out of the banking system and brought back into it three times during that month.

The Coolidge Bull Market

I GOT the data for that kind of a computation and worked them back, as far as one can work them back, during all the period since the war, beginning with 1919 and those results are here shown in Chart No. 2—(Turnover of Deposits), the chart being in essence like the other chart, representing monthly fluctuations, each upright division representing a year, beginning here with 1919, and ending with 1929, for reporting member banks. Deposit turnover, or the turnover of checking accounts, was rising in 1919 as the boom of that memorable period was on, until it got up almost to four. It turned down as inflation and the boom period turned down in 1920 and 1921 and ran down slowly but steadily in 1921 almost to three; recovered again and ran along for three more years with minor fluctuations at about 3½ level. At the end of 1924 we had President Coolidge's election and the beginning of what we commonly call the Coolidge bull market. At that point the turnover of deposits began to rise rapidly until early in '26 it was higher than it had been in the previous half dozen years.

In 1926 it made no net increase. The year 1926 was also the year in which stock prices in general made no net increase. March of that year there was a very serious break in stock prices. There was a rapid recovery from that break. In October there was another severe break and a recovery from it, most stock price indexes ending 1926 about where they began. In 1927 a very great increase came; in 1928 a phenomenally rapid increase, carrying on into these first three months of 1929.

So here we have a very different sort of record for the fourth one of those four factors suggested as representing the fundamental basis of business in any country, not only a very great difference but one that is particularly impressive when contrasted with what happened back in 1919 and 1920, which was a period of very serious credit inflation.

Speculation Localized

THE fact that there was no increase in 1926 leads to the suspicion that there might well be some connection between that pause in the advance of the line and what happened in the security markets. So I decided to test that out. I got a list of all the stock tickers in America and found out where they were located geographically.

We say, of course, with a good deal of confidence that this recent outburst of speculative activity in this country is country-wide, and in a sense that is true and yet if one searches those records of the location of stock tickers I think he inevitably comes to the conclusion that speculation is rather localized in this country in a broad way than generalized.

I found that of all the stock tickers in the country more than 10 out of 11 were located in six of the Federal Reserve districts. They are in those districts that are comprised in the states of New England, New York, Pennsylvania, Ohio, Michigan, Illinois, and the district around Los Angeles. The others, less than one-eleventh of all of them, are in that broad belt of states along South and through the Middle West and up into the Northwest.

After having done that, I recomputed this same material about turnover of deposits to see how the deposits turned over in those two sets of six districts each, which we may for convenience call the speculative Federal Reserve districts and the non-speculative Federal Reserve districts, and through that I got still another chart (Chart No. 3) on the same general principle, but this time running from 1922 into 1929.

The figures on the left mean turnover per month just as they did before. We have two sets of districts—the upper and the lower. And in those six Federal Reserve districts having 5000 tickers, the turnover of deposit line ran along at about the 3½ level, as we saw before, up to the beginning of that great bull market, and then went on with increasing acceleration until the last records that we have for the first months of this year show it up there at a level twice as high as the level from which it started off.

Without Parallel

ON the other hand, the lower line, representing deposit turnover in the six districts, with approximately 450 tickers, has run along just under the 3-level during that entire period, with very moderate fluctuations and only in this past month has hooked its head up above the 4 line.

Clearly there is here a very distinct difference between these two sets of districts and one so striking that I think we must conclude that it has a relationship to this matter of speculative activity as here represented by this device of segregating the stock tickers.

We may infer from all this that we have going on in this country a period of credit inflation that is without parallel of its sort. Of course, the use of credit, when we measure it, is represented by the volume of loans and deposits and by their turnover. In combination they represent credit use. In former periods of inflation turnover has remained somewhat nearly at a given level. The volume of loans outstanding has greatly increased. This time the volume of loans outstanding has not greatly increased although it has increased some, but overhead has risen to unprecedented heights. If instead of having the picture I have shown here

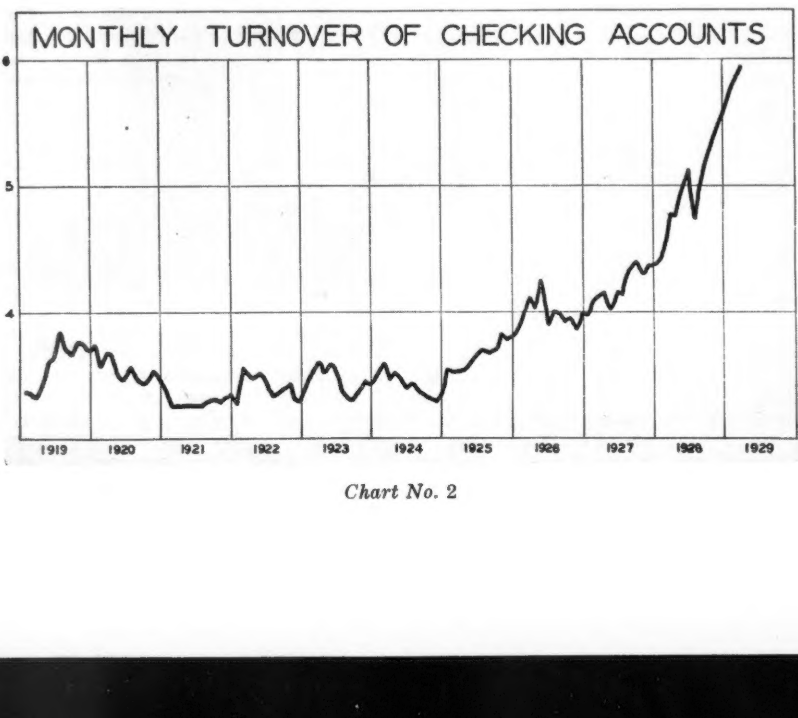


Chart No. 2

we had at the present time the same amount of credit use represented by a relatively stable turnover and a proportionately increased amount of loan expansion, then I take it we should all be greatly alarmed, but since it has come in this form to which we are not accustomed, and which does not get re-

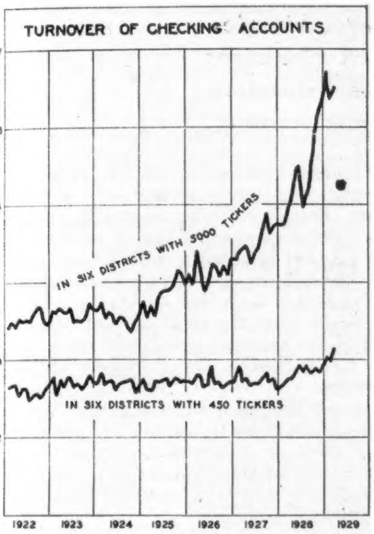


Chart No. 3

flections in the weekly and monthly bank reports,—it has passed not unnoticed but unnoticed so far as these manifestations are concerned, or nearly so—there is no need to be alarmed.

Invisible Banking

WHERE does it all come from? I think that we will find the answer to that in the development over the past few years in this country of a great invisible banking system, unofficial, unrecorded, very real. I refer, of course, to the phenomenal growth of brokers' loans for the account of others particularly.

Why do I call that a banking system? I am inclined to think that is what it is. I am inclined to think that we have here in that surprising development an unofficial invisible banking system which not only makes loans, as we know it does, but which also takes deposits. I think that when you buy a number of shares of stock in an investment trust, that takes those funds and puts them as it will today on the call market, you have made a deposit and they have made a loan.

If you buy a share of stock in an industrial company that uses the proceeds not to build new factories or in some other way to expand its machinery of production, but instead to increase its corporate surplus and it puts that increased amount on the call loan market, as it probably will today, you have done the same thing: I think you have made a deposit and they have made a loan.

So that I believe we are not stretching the use of the term unduly when we say that there has been created here a new and invisible banking system that carries through the ordinary functions of banking, except one: they have no checks. Since they cannot draw checks they use checks of our banking institutions, and that added burden on the checking facilities of the ordinary bank gives this extraordinary result that is seen on Chart No. 3.

Stock Prices Rise

IF it be true that we have here represented a new kind of inflation going forward on a grand scale, how has it operated with regard to prices?

We know that when credit use expands more rapidly than the number of things traded in, bought and sold, prices must rise. Of course, the things, the prices of which have risen most conspicuously in these last few years, are stocks and we know just as a matter of general observation that stock prices have risen, and have risen a long way. But have they risen concomitantly with this increase, and has it been an advance in price in so far as we measure price in its relationship to value? That is a complicated-sounding question.

I have tried to answer that also. I took the records of the thirty leading stocks which have afforded during the last five years the largest amount of trading on the stock market, stocks like General Motors, General Electric, U. S. Steel, and so on—the large stocks, the large companies that have been most active in the trading and that during a large part of that period have contributed actually a majority of all the trading on the stock exchange in New York City.

For those thirty corporations I worked out monthly the price of all their outstanding stock; I mean not merely a price index, an average of the thirty, but the aggregate price of all the shares outstanding. Then I worked out quarterly during the same period the profits, net earnings of those companies, available for dividends and then I made a price earning ratio, dividing the one by the other, and finding out all the way through how many times the earnings the stock was selling for, ten times, fifteen times, twelve times, whatever it might be, because there, of course, we have a measure not of the volume of profits of the company but a measure of what the public thinks about stock values, how much the public is willing to pay for earnings of, let us say, $10 per share per year, or whatever the payment may be. That is something that happens in the minds of people and not in the profit account of the corporation.

Having made that computation, I got finally as a last chart (Chart No. 4) one running from the beginning of 1924 through to early 1929, in which the upper line is the same upper line that we saw on the other chart, the line from the six speculative Federal Reserve districts, except that this time I started with 1924. If we say 1924 equals 100, we put all the other years on in relatives of that 1924 start-off. The lower line represents the price earnings ratio, the public estimate of how much earnings are worth for the thirty leading corporations. Almost, it is the same line and there is here, of course, some substantiation of the classic economic theory of quantity of money because we have a credit use which has expanded more rapidly than the number of things dealt in and so has resulted in a corresponding increase in the price of the things dealt in.

Two Deductions

FROM all of this, I draw two deductions: the first one is that we have going on in this country an important period of credit inflation which manifests itself at this time in a very great increase in turnover rather than in the ordinary manifestation of an increase in the volume of loans outstanding. Secondly, I infer that the responsibility for all this is not to be found in the places where we are likely to look for

(*Continued on page* 1140)

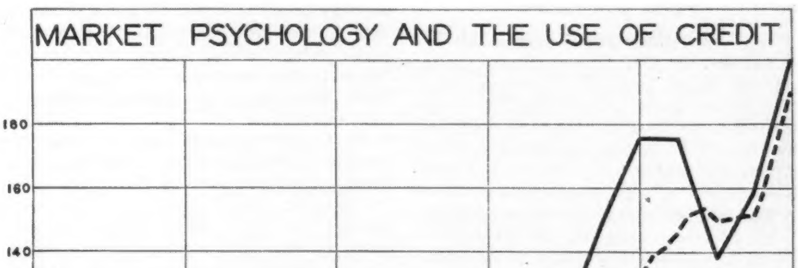


Chart No. 4

The New Master of the Market

By JOHN H. LIBBY

Effect of Investment Trust Trading Seen in Market Flurries. Enormous Security Dealings of Heavily Capitalized Concerns Associated with Wide Fluctuations in Prices. Far Exceed in Volume Past Concentrations of Funds for Exchange Activity.

Surpassing the Pools

THE passing of the pools as controlling forces in the stock market is forecast in this article which points out that the resources for buying and selling securities at the command of the investment trusts completely overshadow the facilities of the old-fashioned method of large scale operations. While investment trust activity in the market is believed to be a cause of price fluctuations for the time being, nevertheless eventual stabilization is foreseen.

FIVE years ago, a strange new creature appeared on the sidelines of the arena of the bulls and the bears. At first he seemed to be timid and anxious to keep out of the fight. When forced to enter or cross the field of battle, he threaded his way carefully between the combatants and played safe by avoiding the appearance of favoring either side. In the beginning he was taken for a lamb. But as he was weak and inoffensive no one took much notice of him—he hardly seemed enough worth while to fleece.

But four years have been sufficient for the stranger to develop tremendous size and strength. The lamb has become the battering ram. Although still of tender age he is regarded as an experienced fighter. Sometimes he appears on the side of the bulls, sometimes with the bears, but he never leaves the arena. His future activities are uncertain and some of the arena officials are a little worried about him. When he joins the bulls, he is apt to push the game too far. The same thing happens when he is on the other side. Some of his admirers excuse his rough habits on the ground that all healthy young fellows go through a boisterous stage, but many of the older heads are saying that if he keeps this up he may become a menace to the whole future of the sport.

This new member of the financial menagerie is the so-called "Investment Trust."

First Ventures

THE first investment companies organized in the United States after the war were, generally speaking, of a very conservative type. Most of these first ventures took the form of common-law trusts, and operated under a trust agreement rather than under a corporation charter. Their purpose was to assure the individual investor security of his principal by means of diversification of holdings which would at the same time give him a reasonably certain income. Only twelve were in existence up to the beginning of 1924. By January, 1927, forty-eight such companies had been formed. That year saw the organization of more than fifty new companies, and for the first time the ordinary trading company became dominant.

These companies in their operations do not differ in principle from any other commercial company, buying and selling commodities for profit, the only difference being that the commodities dealt in are securities instead of raw materials or manufactured goods. Some of the new trading companies, like the country general store, were organized to deal in any and all kinds of securities, while others were formed to buy and sell only the securities of certain industries, such as public utilities, railroads, oils or aviation.

By far the greater number of the investment companies now operated, however, are unlimited as to their field. The tremendous upward swing of the stock market in 1928 called nearly seventy more of these new companies into being, and in the first three months of 1929 an additional twenty-six of these organizations were chartered.

Differ from the Pools

AT present, 184 so-called "investment trusts," with a total paid-in capital of $1,213,000,000, are operating in the United States and Canada. Twenty-two of these companies are working under trust agreements, the remainder being corporations organized with power to do a general business in trading in stocks, bonds, and other securities. Twenty-five other companies, generally classed as holding companies, but in reality also investment companies, with a total paid-in capital in excess of $500,000,000, should also be added to the list. This indicates that the total amount of capital in the hands of investment companies in April, 1929, is approximately $1,750,000,000.

Much has been surmised but little is known about their manner of operation, but there is a general agreement that they will have an important effect on the future course of security price fluctuations.

Prior to the appearance of the trading companies, the largest aggregations of capital under centralized control which were used in the speculative markets were in the hands of the pools formed by groups of professional operators for the manipulation of definitely specified stocks. Pools, however, are temporary organizations, from which the resources are withdrawn as soon as the immediate objective for which they are formed has been achieved. The trading companies are permanent concerns, from which capital will only be withdrawn through losses or rendered unavailable because of long-time investments. In addition, the officers of the new companies are under the obligation of keeping this capital continuously employed so that the largest possible profits may be made for their stockholders.

The trading companies also differ from the pools in the amount of capital at their disposal. Pools are frequently directed by men of considerable resources, but the acquisition by any pool of more than half a million shares at one time has been a rare occurrence. The professional speculator usually operates on a margin, sometimes large, sometimes small; but it is safe to say that very few of these operations have ever involved more than from $25,000,000 to $50,000,000.

Quick to See Bargains

IN one famous case on record, where a pool was formed in certain oil stocks some years ago, it is known that as much as $40,000,000 was available in cash to the pool manager. Pools of this magnitude have been rare, and usually a much smaller amount has been sufficient to bring about the desired manipulation in stock prices.

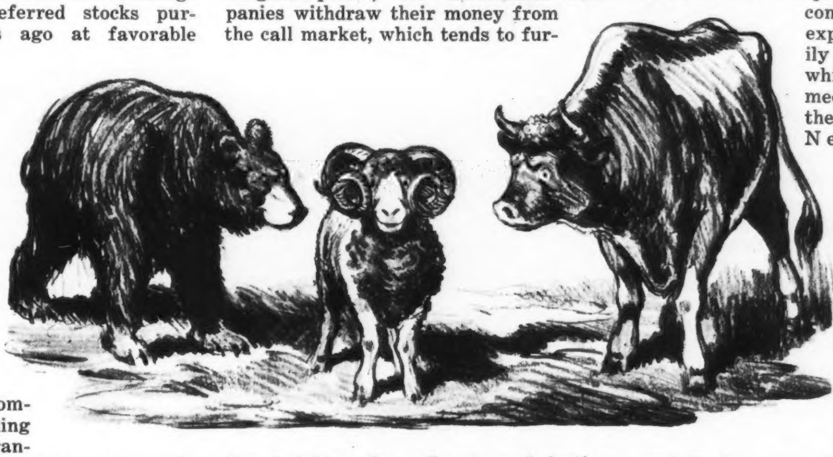
Some of the new investment companies are gigantic in size. The largest has a paid-in capital of $125,000,000; another $100,000,000, and a third about $60,000,000. From here they taper off to relatively small companies with a million in cash at the time of organization. It is hardly necessary to say that capital in these amounts available in cash and under the control of small and highly organized groups could be used to carry on speculative operations for the rise or fall far exceeding in magnitude anything known in the past, provided the disposition to do so prevailed among the investment company managements.

The extent to which such operations will be carried on depends on the purpose for which the companies are organized, and on the character of their management. The older and more conservative trusts, whose chief holdings are bonds and preferred stocks purchased some years ago at favorable opportunities, will have little or no effect on security prices. No doubt these companies take advantage of high prices to dispose of their weaker holdings and to lend the proceeds in the call market from time to time, but not in such large amounts as the more recently organized trading companies. The holding company type, organized to hold the securities of certain specified industrial companies, is also probably not a great factor in causing wide price fluctuations, under ordinary circumstances, as these securities are purchased for the long pull, and in some cases where the control is vested in the holding or investment company, market fluctuations will have little or nothing to do with the acquisition or disposal of the company's assets. Consequently, companies of this type act as stabilizers of security price movements.

With the trading companies, however, a somewhat different situation is involved. The company with from $50,000,000 to $100,000,000 of capital, operating in such a manner as to make as much money as possible for its stockholders, and dealing in the common stocks of industrial and other corporations, may be instrumental in causing wide fluctuations of prices. As the managers of these companies are usually men who have long been associated with brokerage houses, they are quick to see bargains and equally quick to dispose of them when the public is at the height of the buying fever and the market is ready for a reaction.

This is undoubtedly what happened in November. As the upward trend of stock prices approached nearer and nearer to the danger point, the trading companies gradually unloaded their holdings, which were bought by private speculators all over the country. This unloading movement is made easy for professional traders by the curious but well established fact that the public does not usually get into the market on a large scale until prices are so high that they are already near the danger point, and the heavy buying toward the end of a speculative boom usually results in the stocks being placed in weak hands. This is evidenced by the huge increases in brokers' loans near the height of a boom.

In the meantime, the investment companies, having sold at high prices, have put their cash in the call market. The great volume of transactions tends to increase the call rate. As the market slips downward toward the point where many stocks are to be had again at bargain prices, the investment companies withdraw their money from the call market, which tends to further heighten the call rate and further to depress stocks. There is plenty of evidence of such operations on the part of trading companies both in the December break and in the sudden slump of March 25 and 26, 1929. In both cases the recoveries were rapid. As prices declined to bargain levels, enormous amounts of trading company capital suddenly appeared, and prices swung back in a few days or hours to levels even above those existing before the declines.



Short Selling Manifest

THE tremendous volume of sales in the latter half of January was another example of trading companies unloading into the hands of the public and standing clear for the break in the market in the first two weeks of February. In the latest major decline at the end of March, strong evidences of short selling on the part of trading companies were manifest and the recovery, most of which took place in less than an hour, was undoubtedly due to the throwing of large amounts of cash into the market by these same organizations.

As most of the trading companies now operating have been organized since the middle of 1928, it is difficult to state positively that the same sort of reaction will occur at each break of the market. There seems to be enough evidence, however, to justify the belief that so far as the short term effect of trading company operations is concerned, that future declines and recoveries are apt to be much more violent than those experienced in the past.

The effects of investment company operations on security price fluctuations in the short swings of the market will not necessarily be the same over a period of years. The very fact that so many of these companies have been recently organized has prevented them from acquiring the securities which they desire to hold. As time goes on, the larger and more conservative companies probably will take over the securities of new and promising industries, which will offer less temptation to sell. Many companies may also be expected to invest heavily in foreign issues which will not be immediately affected by the fluctuations in the New York market. These factors may tend to diminish the supply of ready cash, the supply and sudden withdrawal of which have so greatly aggravated the present speculative boom. Such conditions may readily act as a stabilizing influence over a period of years. It is, of course, the effect over a period of years of the operations of investment companies that is important to the economic structure. New factors in the field of finance usually cause disturbances until time has fitted them into the scheme of things.

American Underwriting

FOREIGN securities publicly offered in the United States during 1928 aggregated about $1,488,000,000—some $105,000,000 below 1927, the highest year on record. The great bulk of this financing was done in the first six months, flotations for that period being nearly two and a half times as great as those of July-December. The marked rise in interest rates in the New York money market was the chief factor in the decline during the second half year.

German issues floated in the United States in 1928 totaled $292,000,000—$57,000,000 more than in 1927—and exceeded those of any other country. Canada was second to Germany. Latin American offerings continued heavy, with Argentina, Chile, Brazil and Colombia leading.

The Spring Meeting

Regional Conferences on Bank Administration to Be Extended. Cooperation with State Bodies Planned in Advancing Growing Momentum of Movement with Special Attention to Importance of Management in Building Better Banks. The Record of Work.

THE business of banking in all of its varied aspects came up for review before the Spring Meeting of the Executive Council of the American Bankers Association held in April at Edgewater Park, Mississippi. Reports submitted detailed the work of the Association in the improvement of the banking structure of the country and surveyed the new trends and developments in the field of finance.

Meetings of the Executive Council, which occur twice a year, in the spring and fall, are in the nature of an audit of the multitude of tasks undertaken by the Association through its committees and commissions for the benefit of banking. Every state and territory in the Union is represented upon the council which consists of some 137 bankers, exclusive of additional members of committees and commissions.

The 1929 Spring Meeting heard a report of progress in the spread of better banking methods, in the strengthening of the system and in the services of the Association. Management as an accepted factor in the science of banking came in for general recognition and the success of the recent Chicago conference led to the suggestion that one of the general sessions of the annual convention at San Francisco in the fall be devoted to the question of commercial bank management. As a related subject attention was also given to plans for extending the system of regional conferences under the auspices of the American Bankers Association on particular phases of banking administration in cooperation with meetings of state bankers associations.

By-laws Amended

THERE were four sessions of the council presided over by President Craig B. Hazlewood. All committee reports were read to the council and in response to the invitation of Mr. Hazlewood there was frequent general discussion and the interplay of questions and answers as important points were developed.

An important amendment to the bylaws of the Association was adopted by the council upon the recommendation of the Federal Legislation Committee. To enable the Association to give an immediate reflection of its viewpoint upon proposed legislation affecting banking Section 4 of By-Law XI was amended by adding the following:

"(2) That in the case of bills introduced in Congress or Departmental Rulings affecting banks which require prompt decision as to the policy and procedure, the President of the Association, the two Vice-Presidents, the Executive Manager, the General Council and the Chairman of the Committee on Federal Legislation shall constitute an interim committee and shall have power, in the interim between meetings of the Administrative Committee, to make such decision in behalf of the Association, and any decision so made shall be reported to the Administrative Committee for approval or disapproval at its next meeting."

It was also decided that Article X of the Constitution should be amended by adding to Section 1 thereof the following:

"Provided that nothing herein shall prevent an individual member or an officer, director, trustee, manager or partner of a member of any division from being eligible to appointment by any other division upon any committee of such other division other than the Executive Committee thereof."

Note: Under Article X, Section 1, while a member of any division may become an associate member of any other division, such associate member has no power to vote or hold office in such other division. The purpose of the proposed amendment is to make an exception to the above provision to the extent that it will permit the appointment of a member or officer of a member of a particular division upon some particular committee of any other division where, by reason of his special knowledge or aptitude, his services as a member of such committee would be desirable.

Another resolution adopted by the council approved the suggestion of the Economic Policy Commission to the effect that the Association considers the question of calendar revision of sufficient importance to recommend that the United States government send a representative to an international conference on the subject to be called by the League of Nations. It was understood, however, that this action did not commit the Association to any particular type of reform of the calendar, nor even to the theory that any reform is necessary. The resolution merely expresses the opinion that the United States should participate with the other nations in the consideration of this subject.

Finances Sound

PRESIDENT Hazlewood appointed committees to draw up memorial resolutions bearing on the services to the Association of two former presidents who died during the year—Myron T. Herrick, Ambassador to France, who was president of the Association in 1901, and Charles A. Hinsch, of Cincinnati, Ohio, president in 1917.

The finances of the American Bankers Association were reported to the council to be "sound and wholesome" by F. N. Shepherd, Executive Manager. In his summary of the business affairs of the Association Mr. Shepherd stressed the value of regional conferences and the growing momentum of this movement.

"Those conferences," he said, "bring the American Bankers Association to the membership and a very notable thing in those conferences is that the men who attend are not the men whom you find in the Council meetings, nor the men you see at the general conventions, but for the most part they are the practical working departmental men in the banks. These conferences are technical and really a workshop of the Association. We hold them in various parts of the United States in order to allow a greater variety of types of men to come in contact with and be helped by the work of the Association.

"I think this work is a notable one, a worthwhile one, and I think it is one that the members of this Council may well give some thought to and if, in the future, such meetings are held in your respective states or territories, make it a part of your business to be helpful in their conduct. Even if it is not a conference in your own particular line, cooperate in holding them. Remember that such a meeting is an American Bankers Association meeting and helpful to a great group of Association members, whether that particular group happens to be your group or not."

Clearinghouse Commission

PRIOR to the general sessions of the council there were meetings of the standing committees and commissions. A study of "The Invisible Banking System" presented to the Economic Policy Commission by Col. Leonard P. Ayres, vice-president of the Cleveland Trust Company, Cleveland, was at the suggestion of Chairman Hecht of the Commission delivered by Col. Ayres before the third session of the Executive Council. The address of Col. Ayres, which was one of the highlights of the meeting, is reported in full eleswhere in this issue of the JOURNAL.

The Administrative Committee approved a resolution from the Clearinghouse Section recommending the necessary amendments to the Constitution and By-Laws converting the section into a commission. The resolution, which will be regularly presented to the Convention and Executive Council at the San Francisco Meeting in October, is as follows:

"There shall be a Commission on Clearinghouse Functions and Banking Practices, consisting of fourteen members—nine to be appointed by the President of the American Bankers Association, and the remaining five members to consist of the vice-presidents of

the four divisions of the Association—National, State, Savings and Trust—and the last living ex-chairman of this Commission. The members thus appointed shall serve for one year and/or until their successors are appointed. Two-thirds of the appointive members shall be reappointed.

"The Commission shall annually submit to the President of the American Bankers Association the names of five candidates for appointment, of which number he shall appoint three. Officers of banks members of the American Bankers Association, Clearinghouse Managers, and Clearinghouse Examiners shall be eligible for appointment. No appointive member may serve for more than three consecutive years.

"The appointive members of the Commission for the first year shall consist of the then nine members of the Executive Committee of the Clearinghouse Section.

"The Chairman and also the Vice-Chairman of the Commission shall be elected by the Commission from its appointive members.

"The Chairman of the Commission shall have the power, subject to the approval of the Commission, to appoint such Committees as he may deem necessary to carry out the functions of the Commission.

"The activities of the Commission on Clearinghouse Functions and Banking Practices shall embrace all matters relating especially to work which may be of interest and advantage to the members of this Association which properly come within the scope of clearinghouses, both city and regional, and all other matters concerned with details of practical banking operation and management.

"This Commission shall cooperate with the four principal divisions of the American Bankers Association in special research work and assist these divisions in any special matters which any division may charge to it."

There follows a summary of the four sessions of the Executive Council:

Thomas B. Paton, General Counsel of the Association, reported that after several years of work and investigation his office had drafted a code aimed to simplify and make uniform the various conflicting rules of the different states on all phases of the subject of bank collection. This work was completed this year after consultation and conferences with banking experts in collection matters, officials of the Federal Reserve banks and others. The code has met with universal approval, he said.

Management's Part

FRANK M. TOTTON, President of the American Institute of Banking Section, described the raising of its educational standards and its steady growth in members, students, chapters, correspondence courses and study groups.

He reported as a major event of this last year the magnificent gift of A. P. Giannini. He had already given the American Institute of Banking an endowment of $15,000, the income from which has been used to furnish public speaking prizes. Mr. Giannini has now donated an additional $35,000, making a total public speaking endowment of $50,000, to encourage public speaking among the rank and file of the Institute.

W. F. Augustine, President of the Clearinghouse Section, told of the expansion of the clearinghouse movement, and described in detail the work of his section in seeking to raise the level of banking efficiency through the campaign for the installation of the service charge, studies of bank budgets and operating costs, the preparation of a standard form for the reports of active officers to directors and the spread of the idea of management among banks.

Commenting upon the development of the idea of further conferences on bank management, both regional and in cooperation with other meetings, in connection with the Clearinghouse Section report President Hazlewood said:

"There is nothing more important for bankers to consider than the problem of bank management. Looking over actual analyses of failed banks discloses in almost every case unmistakable evidence of bad management. While we must admit that economic causes show up the weak sisters, the reason they go by the board is more largely the result of bad management than any other cause. Then there is the question of declining profits in the banking business and the circumstance that there are literally hundreds of banks that are not making any money. We can not 'pull anything out of the hat' to change fundamental conditions where a bank has too much of its assets in real estate or something which produces no revenue, but it is demonstrable that we can improve the condition of many banks."

Farm Work Shown

A. V. MORTON, President of the Trust Company Division, discussed the growth in trust business and described the results of a national survey conducted by his Division which indicated a 49 per cent increase of trust company appointments as executor and trustee in 1928 over 1927.

D. H. Otis, Director of the Agricultural Commission, outlined the activities of that body in relation to banker-farmer problems and following his report a boy and a girl gave a demonstration of agricultural improvement work sponsored by the boys and girls 4-H clubs in the agricultural districts.

Edgar H. Sensenich, President of the National Bank Division, told of the efforts of his Division to protect the national bank currency and reported that a questionnaire from national banks showed that they were overwhelmingly in favor of the retention of this form of currency.

Austin McLanahan, Vice-President of the Savings Bank Division, presented the report of that Division which pointed out that time and savings deposits now include 56 per cent of all deposits in banks and trust companies in the United States, thus focusing on the savings business the attention of a number of bankers who in the past have been chiefly interested in commercial business.

S. J. High, President of the State Bank Division told of the efforts being made toward greater uniformity and consistency among the banking statutes of all the states, the drive for more uniformly efficient public supervision and of the distinct tendency evidenced among the states to raise the minimum capital required for banking institutions.

Group Banking Studied

FRANK WARNER, President of the State Secretaries Section, described the changes in the committee organization that have been made by the Section to eliminate over-lapping with work of other parts of the Association and told of the expansion of the Section's activities through the setting up of fact-finding committees.

Rudolph S. Hecht, Chairman of the Economic Policy Commission, advised the council that a preliminary study of the group banking movement has been made and a complete report will be submitted to the annual convention of the Association in San Francisco this fall. Meanwhile, he said, the Commission has already collected some very interesting facts on the subject, adding, with special reference to chain banking, that: "This latest tendency in the development of our banking system is rapidly spreading all over the country. Until recently the formation of holding companies through which other banks were acquired was usually kept more or less a secret, with the result that no reliable statistics have been available as to the number of banks that are controlled by other institutions. During the past several months, however, much of the secrecy which attached to such transactions in the past has been done away with and several of our outstanding banks in various sections of the country have openly announced their operations under this new policy and have in a number of instances reached out beyond the borders of their own states into several of their neighboring states. Your Commission does not intend to become a partisan either for or against this movement, but believes that it does represent an important economic question which demands our serious study."

Fred I. Kent, Chairman of the Commerce and Marine Commission, reported on the various investigations made by that agency under the heads of merchant marine, railroads, aviation, Congressional legislation that might affect American trade and commerce, laws relating to documents commonly used in carrying on business in the United States and with foreign countries, agricultural and industrial development and banking and the money market. The portion of the Commission's report dealing with the money market is printed elsewhere in this issue of the JOURNAL.

Educational Foundation

JOHN H. PUELICHER reported for the Fiftieth Anniversary Committee and for the Foundation Trustees, advising the council that all of the $500,000 fund for the educational foundation, established by the Association in commemoration of its golden anniversary, has been collected with the exception of $38,000.

The report of the Public Education Commission, of which Mr. Puelicher is also chairman, was presented at his request by Harold Stonier, Educational Director of the American Institute of Banking, who told of the movement throughout business for developing institutes to educate their own workers in their particular fields and also of projects for creating better understanding in the public mind concerning various business. He said that the American Bank-

(*Continued on page* 1174)

Farm Problems of Tomorrow

By C. B. SHERMAN

Blind Competition Injurious to Fruit and Produce Business. Further Expansion of Production Unwise Unless Some Unusual Method of Stimulating Demand Is Devised. Opportunities Lie in Cultivating Market in Areas Within Reach of Industry.

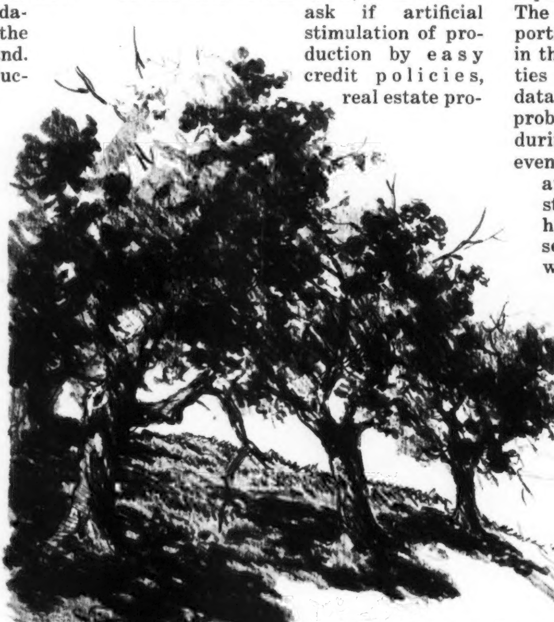
EXTENSIVE studies by government experts seem to indicate that further expansion in the production of fruits and of many of the vegetables is not the part of wisdom unless some unusual method of stimulating demand is found. Producers and those who are financing them have a fundamental problem of adjusting the volume of production to demand. Blind competition between producers in different areas and between producers of competing products is largely responsible for the very difficult situation in which certain growers are finding themselves.

So far as the consumers' market for fruit and many vegetables is a limited market, in any one season or over a longer period, regulation of the trend of output and of the seasonal marketings is an obvious necessity. But even a regulation of the trend in local production and its effective distribution is dealing only with a part of the problem. Efforts will be effective or ineffective depending on what competitors in other areas do. Thus, no restriction of reasonable proportions that California may place on its production of oranges can stem the prospective competition from Florida, or the upward trend in the production of competing fruits.

There is the apple situation, for instance. In 1910 there were over 217,000,000 apple trees in the country, young and old, and in the next ten years another 36,000,000 trees were planted. Had all of them been allowed to grow there might have been over 250,000,000 trees in bearing by 1925. The apple industry proved so unprofitable, however, that only 104,000,000 bearing trees were left in 1925, showing that over one-half of the trees which would have been bearing had been cut down or neglected. Between 1905 and 1920 over 100,000,000 young apple trees were planted in addition to the 150,000,000 already bearing, yet subsequent events proved that few if any of these additional 100,000,000 trees were needed to supply the demand for apples. This over-expansion of the industry carried with it enormous waste and great loss to thousands who invested their savings in new orchards at the time when prices were high.

The fruit grower's problem in any important area transcends local bounds. In its fundamental and real aspects it is a national and international problem, vitally related to the expansion of our agricultural area and its utilization.

In the face of the facts, it is fair to ask if artificial stimulation of production by easy credit policies, real estate promotion, or government subsidy is called for or justified. The harmful effects of ill-advised land promotion on both new and established farmers, banks and business generally must be apparent to all. The inflation of land values and resulting embarrassment to growers and bankers in various parts of the country are too familiar to require comment.



Half the Apple Trees Were Neglected

Farmers Were Warned

FOR seven years the government has been issuing a series of interpretative reports as guides to producers, distributors and consumers, and to those who finance agricultural industries. To aid in guiding production programs agricultural outlook reports are issued in January of each year for all crops. After these reports have been widely distributed, "intentions to plant" reports are issued, based on reports from some 50,000 farmers in all parts of the country, and if these intentions are markedly out of line with what the outlook reports indicate to be favorable, a warning is issued.

Then come the monthly price situation reports and the monthly periodical called The Agricultural Situation. These reports analyze the significant tendencies in the production of the several commodities and, on the basis of all available data, an attempt is made to indicate the probable trend of production and prices during the forthcoming year, or possibly even for a longer period. These reports are based on the results of careful statistical and economic analyses that have been under way for the past several years, and they have indicated with remarkable accuracy the probable trends in the industry.

Let us take the potato crop of this year as an example of this work. Farmers were warned in January, 1928, that the indications pointed to a substantial increase in acreage and those who were planning to expand their acreage because of profits secured during the preceding three years were reminded of the unfavorable returns during the three years, 1922 to 1924. But the intentions to plant report in March showed an intention to plant an acreage nearly 12 per cent larger than that harvested the previous year. The warning was repeated. As a matter of fact, acreage was increased 9 per cent over the 1927 total, the yields were unusually heavy, and there was a total crop of 464,000,000 bushels—the largest potato crop ever grown. The average price of $1.04 per hundred pounds in Chicago, the leading potato market, during September, 1928, was the lowest September average in that market for fifteen years.

Fortunately, the growers of many other commodities seem to be guided more readily by these reports than were the potato growers.

Loans by Distributors

WHO finances these gigantic crops, and how? This is a question that inevitably arises. The government is cooperating with the Food Marketing Research Council of New York City in a

(*Continued on page* 1141)

Investment Trust Regulation

By CARL WILSON

Uniform State Supervision of Investment Trusts Is Proposed. Securities Commissioners Set Standards for Nation-wide Use. First Steps Being Taken Toward Regulation and Examination of Rapidly Expanding Forces in Field of American Finance.

REGULATION for investment trusts is in the making. America's fastest growing form of financial organization is to be called upon to face the test of a standard set of rules of conduct designed for nation-wide application by state authorities charged with the supervision of agencies engaged in the business of selling securities to the public.

Notwithstanding the broad appeal of the stock market, the investment trusts, or more properly the investment companies as they are coming to be called, have demonstrated that they have a wide market for their securities. The investment trust, which a few years ago was looked upon as something new in the economic structure of the country, has established itself.

The most recent statistics put the number of concerns that may be properly considered as investing companies at close to 200 with a total paid-in capital of $1,500,000,000. These are the figures for both the United States and Canada and include some corporations that might be classed as finance or holding companies. The strictly investment trust companies are reported to number 172 with paid-in capital of $1,034,000,000.

Prior to 1924 there were only a dozen investment trusts in this country and for several years new companies were slow in forming. By far the greater part of the investment trust companies now doing business in the United States were launched during the past two years.

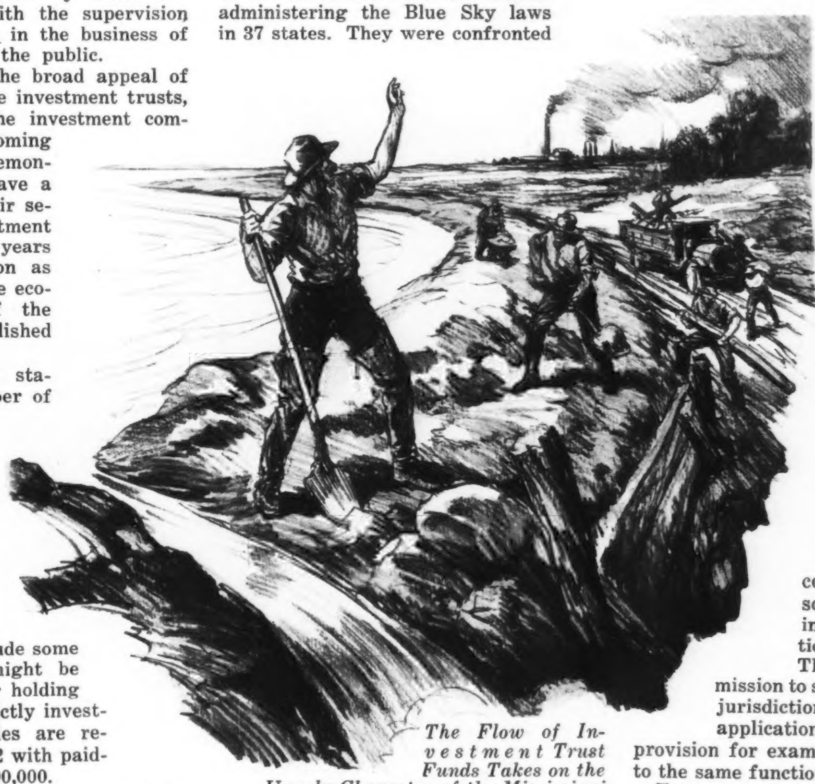
Uniformity Imperative

HOWEVER, the coming of the investment trust as a major figure in American finance was foreseen two years ago. Their possibilities were well known from the history of the original organizations for this form of investing in England and Scotland. American prosperity and the supply of funds seeking earnings made their expansion in the United States a foregone conclusion.

Therefore the National Association of Securities Commissioners in 1927 undertook a study of the development of the investment trust. The members of the association are the officials administering the Blue Sky laws in 37 states. They were confronted with a new type of security selling agency of vast possibilities which they are now called upon to examine. The result of the inquiry is best epitomized by Jesse V. Craig, of Nebraska, president of the association, who says:

"The day of the individual trust controlling a billion dollars of resources is near at hand. It is imperative that uniform regulations exist throughout the country for the proper administration of these organizations and the giving of full information to the investor as to just what he is buying when he purchases their securities."

The practical problem that confronts the securities commissioners of the various states is how to determine intelligently and fairly the merits of the various types of so-called investment trust securities that come before them so that the public interest may be safeguarded without unduly hampering the sound and well managed companies. It is believed that most of the states are equipped with legislation which properly places the investment trust under supervisory authority. In some states it may be necessary for legislation to be adopted before the plan of dealing with investment trusts devised by the securities commissioners can be wholly nation-wide.



The Flow of Investment Trust Funds Takes on the Unruly Character of the Mississippi

Under the plan prepared by the securities commissioners the investment trust companies are put on something like a banking basis in their relation to state authorities. The application for permission to sell securities in a given jurisdiction corresponds to the application for charter and the provision for examination is comparable to the same function as applied to banks.

Two sets of application forms have been drafted. One for the use of the managerial type of investment trust and the other for use in case of the contractual or indenture type of company. The association considers investment trusts as comprising two distinct classes, the managerial type and the contractual or indenture type, the latter sometimes called the fixed or quasi type.

Certain Essentials Sought

THE first main group more nearly corresponds to the British trust. They sell their stocks or bonds to the public and invest the funds obtained

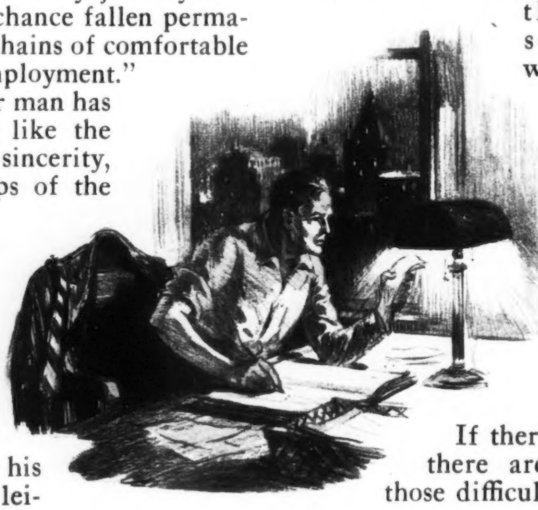
(*Continued on page* 1142)

The New Difficulties in Banking

"TO this day I thank difficulties. They were more numerous than the nice happy incidents. But the latter gave me nothing. The difficulties of life have hardened my spirit. They have taught me how to live.

"To me it would have been dreadful and fatal if on my journey forward I had by chance fallen permanently into the chains of comfortable bureaucratic employment."

Many another man has said something like the foregoing in all sincerity, thinking perhaps of the days plowing in the open fields when he would much rather have played beside a troutstream; or when he had to work at school while his fellows were at leisure on the campus, for the man thus giving thanks has seen that the better part of his education has come from the difficulties not set down in the text books.



Yet few men look with gratitude upon so many difficulties as were encountered by the man quoted above —Benito Mussolini, the Dictator of Italy.

Expelled from one country after another, trench life, war-front wounds, forty-four pieces of shrapnel in his body, twenty-five operations without anaesthetics, the suspicions, the hatred of thousands, the intrigues of powerful groups, repeated attempts to assassinate him, yet after all he triumphantly writes—

"To this day I thank difficulties!"

Who is there who reads the sentence quoted above that is not beset with big or little difficulties, either in the bank or out of it?

Facing them with patience and quiet courage he may perhaps one day look back upon them—be what they may—as something to which a certain kind of homage may be given.

"Life," said one philosopher, "does not consist in holding a good hand but in playing a poor hand well."

If there are difficulties, there are ways to meet those difficulties.

MANY men in the banking business looking about them see themselves faced with difficulties of a kind which they never before encountered, and they are perplexed to find the way out.

Perhaps a help to their solution would be the determination not to be satisfied with just a way out but instead to face them with the resolution to turn the present disadvantages into advantages—to somehow and someway *make them stepping stones instead of stumbling blocks.*

James E. Clark

The Banking West

By JNO. U. CALKINS
Governor, Federal Reserve Bank of San Francisco

Growth in Bank Resources, Population and Assessed Value of Property Breaks All Records in Twelfth Federal Reserve District. Progress Due to Basic Banking and Business Caused. Developments in California Forecast Merger Movement in East.

JUST why an article on banking and economic interests in the Far West should couple bank resources and assessed values of property with population may not at once be clear. Indeed, this method of presentation can be justified only on the basis of convenience and simplicity of thought.

Even a tyro understands that expanding industrial production and distribution—increased manufacturing, freight car loading, automobile sales, airplane business, the exploitation of specialities and new inventions—all these contributing elements are reflected annually in assessed property values. One familiar with the elements of economics and with the rudiments of bank credit must grasp at once an idea of the part the bankers have played in this picture, for it was their assurance of ample funds that fostered the formation of business plans. It enabled enterprises to proceed with plans for future operations which in their turn expanded bank resources.

Having gathered all the statistics of development in the Twelfth District at my own command and desiring to get some check on them a visit was paid to an aged insurance actuary in his San Francisco office—the first visit for twenty years on such an errand. There was the same jumble of reports and bulletins. There sat the old-timer, hunched in his chair as he used to sit.

"Tabulation from the United States Census Reports," he said, indicate a total population in District Twelve half again as large as it was in 1915. Tax records show that assessed value of property has nearly doubled. And total bank resources have almost trebled, according to the printed reports issued by supervising authorities."

Adding to Banking Power

THE figures he mentioned appear with this article. These statistics as well as the observation of the old-timer, tell the story of this district's rate of development. The percentages are from 1915 to 1928, and also for the same period calculated forward and backward from 1922. And the district has progressed thus wonderfully, largely because its interests have had skillful guidance and financial aid from scores of its outstanding bankers, whose vision, courage, and constructive purposes found scope within its boundaries. Property assessments by years since 1915 evidence the tremendous building and development activities keeping pace with increasing

The Twelfth Federal Reserve District. Area, 717,822 *sq. miles; population,* 8,673,000; *banking strength,* $5,439,000,000; *number of state banks,* 886; *number of national banks,* 499; *total banks,* 1385.

population and the consequent demand for homes, commercial structures, industrial plants, agricultural and livestock undertakings. Each year of progress has been marked by a succession of great enterprises in which the bankers of the West assumed a large and responsible part.

It will be found interesting to compare the great banking interests of the Federal Reserve District in 1929 with the District's banking interests in 1915, when the Federal Reserve Bank was undertaking to do its initial part toward the unification of banking, thus adding vastly to the banking power of the Pacific Coast and fostering its economic stability by efficiency of bank credits in financing business.

Custom Demanded Gold

LET us return, then, to November 16, 1914, when, by the authority vested in him through the Federal Reserve Act, the Secretary of the Treasury declared the Federal Reserve System established. In many member banks it was the beginning of the maintenance of adequate credit files, but changed viewpoints have come with the shifting scenes of business and signed financial statements are now the rule rather than the exception when business goes a-borrowing.

Then came the establishment of the Reserve System's Gold Settlement Fund on May 1, 1915, for the safety and economy of telegraphic transfers for member banks. There followed the general collection of checks at par at the close of 1916. Toward the end of 1917, deposits of non-member clearing banks appeared on the Reserve Bank books. Seventeen state banks were admitted to membership in District Twelve. Branches, with adequate supplies of gold, Federal Reserve notes, and credit, immediately at hand, were opened by the Federal Reserve Bank at Spokane, Seattle and Portland. Later the branch at Salt Lake City was established; then, the Los Angeles branch.

Up to 1917, the general custom and prejudice demanded the use of gold in California instead of currency. Then the President's appeal on Oct. 13, 1917, for state banks to join the System as a patriotic duty was followed by a wave of substitution of Federal Reserve notes for gold (accounting for the large additions to Federal Reserve notes outstanding). The World War . . . the Armistice . . . the period of readjustment. In 1917 the formation of the Federal Land Banks; six years later the establishment of the Intermediate Credit Banks and the National Agricultural Credit Associations. The new era of prosperity beginning in the autumn of 1922.

The years 1915 to 1929 saw the number of banks (member and non-member) in the Twelfth District drop from 1725 to 1385 while the banking power rose from $1,960,000,000 of total resources to $5,439,000,000. An institution which in 1915 operated in only four cities with a mere $19,000,000 in resources is today the largest in the Twelfth District, operating 283 branches and totals its resources to $848,000,000. Another, and at present the second largest in the district carries 153 branches and has so multiplied its resources since 1915 as to make them now exceed $600,000,000.

Giant Banks Loomed Up

WITH the rise of these giant banks, all Pacific Coast bankers gave serious thought to the trend of banking. There was, for instance, the public fancy for the stocks of investment trusts. So keen was the demand for the outstanding stocks of investment trusts that it became possible for their prices to increase so rapidly as even to exceed the market value of the securities in the portfolios of these trusts. Who can tell how much the call money market was affected by funds used in call money operations by industrial corporations with surplus funds to lend, or credit for borrowing at lower rate than call, with the resulting incentive for profit? Giant banks in the making loomed bigger and bigger, largely due to the fact that branch banking had obtained great growth in California; competition between rapidly growing branch banking institutions and competition between these units and the independents had created a situation which was more favorable for mergers than in many states where independents have preferred to have their way as such, or to find more scope through "bancorporations," financial and bank-stock holding companies, and chain-bank investment by individuals or groups.

Five years ago when the new terminology was "contiguous territory"—"de novo branches"—then the McFadden Bill, the present epidemic of huge bank mergers could have been forecast by those familiar with the condition of banks in the Twelfth District.

The new prevalence of bank mergers represents the decision on the part of able and fearless financiers to keep pace with the business of the Pacific Coast. The mergers complemented great industrial consolidations. Giant corporations needed giant banks. And so, mergers and stock-purchases over the years created large state-wide branch systems in California and Arizona, and large "chains" in Washington, Oregon, Utah, Idaho, and Nevada, to meet the demands of growing business. There arose a new terminology that referred to branch or chain organizations as "horizontal trusts" and the industrialists' attempts to merge all the units for converting raw material into finished product were referred to as "vertical trusts." Banks became department stores of finance in their parallel attempts to merge all the units of big business requirements with the requirements of the smallest savings depositor. Even in small communities affiliated security companies as investment arms of the banks were the fashion and these departments became potent as sales offices for stock of banks or their affiliates or both.

A Stream of Changes

HERE, as in the East and Middle West, the public was thrilled by the almost daily accounts in the newspapers of mergers and consolidations of banks into institutions whose total resources were thus skyrocketed to record heights and whose listed stocks were purchased by an enormous number of stockholders, large and small. Their interest in rumored changes in financial set-ups has been maintained or stimulated for years by ever new alignments and affiliations in the Pacific Coast banking field. Comments of financial editors were sought and read; the banks' published financial statements were read. They learned the parlance of the stock market.

Now nearly all the large cities in the Twelfth District have their "chain-bank" operators, their bank stock holding companies, their "bancorporations," and their investment trusts or securities departments, operating in bank stocks. A record-breaking stream of changes in bank ownership and bigger banking units results, revolutionizing the methods of investing surplus and other loanable funds, and decreasing the number of banks while the volume of available business continues to increase. And for every variety of business not permitted by law, the bank has provided an affiliate to take out slow and undesirable paper, or doubtful assets and losses, if any; to take care of insurance and real estate business, long-time agricultural credits, building and loan transactions, stock market operations; and companies to hold the stocks of the bank and its affiliates except for the directors' qualifying shares.

The accompanying graph furnishes an impressive piece of evidence of industrial development and expanding banking power, both keeping well in the lead of increasing population. In this fact we have evidence of financial strength and progress that is encouraging to our bankers, business men, farmers, property owners, and to all who have a stake in the Twelfth District. It shows that the banking power of this district has been expanding more rapidly than population, and that property values have steadily held to their proper relationship to the population and its use of bank credit for its commerce and industry.

Found Further Scope

THIS progress has a number of basic causes and a still greater number of subsidiary or contributing causes which are directly associated with banking power—indicating the available supply of credit from year to year; the resultant cheapness of money; the steady expansion of the volume of commerce and development projects; their accompanying sound and essential financing; the distribution of security issues by subscription, syndication, or otherwise. This banking power has participated substantially in attempts of the specialists to establish a countrywide bill market. It has found further scope in the exchanges than ever before, for the exchanges have reflected strong public interest in the stock market and stock offerings. Absorption of increasing amounts of capital issues of stock in preference to bond issues continues to be a tribute to the confidence and faith of enterprisers who believe in the stability and future prospects of this district.

In conclusion, the following figures will furnish food for thought. In 1921

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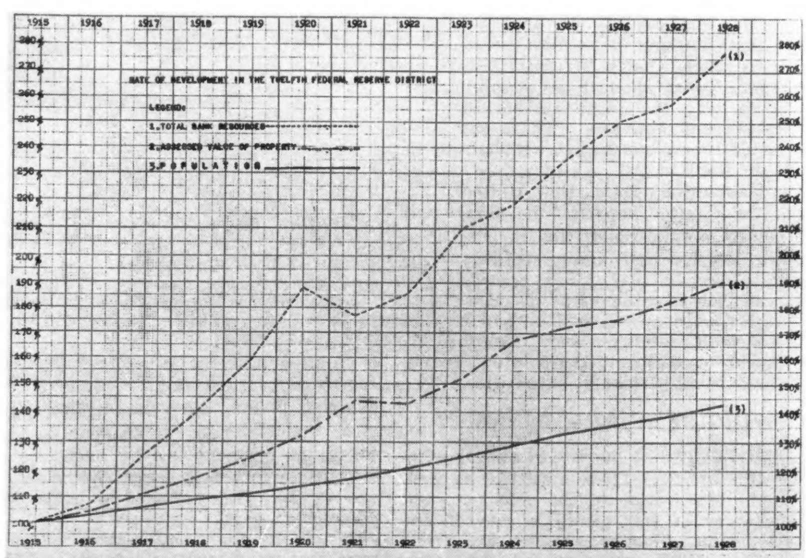


Rate of development in the Twelfth Federal Reserve District

New Investment Fields in South America

By G. BUTLER SHERWELL

Southern Republics Require Substantial New Capital Inflow. Potential Resources and Trend Toward Industrial Expansion Offer Opportunities for Surplus American Investment Funds. Rate of Return Considered High and Adequate Safety Is Seen.

Beginnings of Industry

THE author of this article was a member of the personal party of Herbert Hoover when, as President-elect, he made his good will tour of Latin American countries last winter. There is presented here an investment analysis of the Republics to the South which discloses an entirely new trend in their development, namely, the beginnings of industrial diversification among hitherto almost wholly agricultural nations.

IN the Spanish and Portuguese speaking republics of America there is an aggregate population of somewhere between 96,000,000 and 100,000,000 people. Their total trade with each other and the rest of the world is now more than five and a half billions of dollars. The outside world has invested in that area, over the last century, an aggregate probably equivalent in purchasing power to more than twenty billions of our dollars in 1928, and new investments are being made at a rate of approximately a billion dollars a year. The adoption of tariff protection and the natural consequence of the investment of large scale sums in the industrial opportunities of the larger countries has greatly stimulated the ordinary commercial life of each one of them.

The import and export trade of Latin-America is bound to increase steadily as far into the future as it is possible to make reasonable calculations. In proportion as the economic conditions of the rest of the world achieve relative stability, the demand for the raw products of the South American continent, Mexico, Central America and the West Indies will tend to become more regular and this in turn will bring about large scale European immigration with the assurance of still further expansion. This article concerns itself chiefly with South America, it being the section of the world offering perhaps the most attractive opportunities for the investment of American capital.

This preliminary period continued until about 1880, when an era of transition was inaugurated. During this second period, which lasted until the outbreak of the European war, loans were made by European countries for purposes of financial rehabilitation, and foreign capital, principally English, started to be invested in the development of natural resources.

How have the United States been benefited in the past by Latin American investments in general? Since 1913, when American capital began to pour into Latin America in large amounts, our trade with our southern neighbors has increased something like 134 per cent as compared with an increase of 42 per cent in the trade of Great Britain with those countries during the same period. It is significant that our balance of trade with Latin America is "unfavorable," although this does not hold true in the case of the balance of payments. In the year 1927, American imports from Latin America were valued at $958,000,000 and the United States sold goods in that section of the continent valued at $803,000,000. In other words, in 1927 we bought $155,000,000 worth of goods more than Latin America purchased from us.

Contrast in Securities

LIMITING these considerations to South America, substantial economic interdependence is perhaps the best guarantee an investor in South American securities may have as to the safety of his invested funds. Trade figures reveal a sharp contrast between what might be termed the quality of South American securities in general and those of a great number of European governments and corporations whose securities have also been offered in American markets in considerable amounts during recent years.

Some of these countries have no economic intercourse with the United States except possibly a negligible amount of trade. The service and repayment of their debts to us will have to be made, therefore, either by shipments of bullion, a condition with which practically no country in Europe is at present in a position to comply, or by means of the triangular trade movement, making a country closely connected with the United States in trade or financial matters, and also connected with the borrowing entity, pay in services or goods for the amount due by the borrower.

No such condition exists in South America considered as a whole. We buy there more than we sell, which means that we may not expect South America to experience any difficulty in keeping the service of its debts to us. This condition is likely to continue for many years to come on account of the increasing industrialization of the United States and the consequent increase in its demands upon raw material-producing countries for articles needed for its manufactures.

Searching the Future

INASMUCH as investing capitalists are most familiar with the products of their own country, are naturally prejudiced in favor of their own nationals, and are often themselves directly or indirectly interested in the production of the capital goods needed abroad; they will usually buy capital equipment in their own home markets rather than abroad, if they can do so at anything like as favorable prices—a fact which is largely responsible for the slogan "trade follows the investments." This theory seems to be confirmed in the case of our trade with our southern neighbors. In 1914, when our loans to Latin American governments and institutions were relatively small, our total trade with that section of the world amounted to about $824,000,000. By 1927 it had increased to about $2,050,000,000.

There are strong indications pointing to the practical end of the "bond period" in Latin America as far as the American market is concerned. In searching the future, besides the fact that in certain important countries the need for such borrowings may not be so great as it has been, that interest rates are now higher in this market and that at least for the

time being certain entities appear to be close to their borrowing limits, there is the paramount consideration of the evolution and trend of American investing habits.

Public Is Stock-Minded

THIS brings us to the present market situation with bonds at the lowest average in three years and those owning them wondering what to do. In recent years American investors seem to have preferred the steady appreciation and higher dividends from their stocks to the steady and relatively safe income from their bonds. It may safely be said that the public has gone stock-minded and that bonds have become less popular. Whether this is a permanent condition or a temporary situation brought about by stock speculation and competition between the investments and money markets is a matter for the individual investor to decide. Maintenance and development of the present business structure of America have rendered it essential to provide institutions destined to encourage investments through returns which in previous years could only be obtained by large investors or by heavily capitalized concerns. Competition in the domestic field may not afford a substantial return for these investments before long. The foreign field must be searched for safe and profitable employment of capital.

In considering foreign fields for investment, comparison is naturally sought among the different fields. None is found that may be favorably compared with that of South America. There is no question that American capital must continue to be invested in South America in large amounts. If we desire to keep our foreign exports at the high level, we must continue to provide funds for development which in itself originates a demand for our machinery and other manufactured products. If South American countries are expected to meet the services on debts contracted abroad, a certain amount of capital must be supplied them to enable them to balance their balance of payments and place them in a position to effect payments abroad without disrupting their currencies and exchanges.

Turning to the Open Door

FOR a number of years these countries will have to be supplied with enough funds from abroad to offset a portion of the disbursements these nations must necessarily make in foreign countries, as their balances of payments are unfavorable without exception and will necessarily continue to be unfavorable for some time to come. The practical stoppage of South American financing since the beginning of the present year (during the first four months of 1929 only two pieces of South American financing have been done in the United States, amounting to $11,000,000) has already shown results in the direction suggested above. Higher interest rates are reported from practically everyone of the countries in South America and gold exports from Argentina have been resumed.

If, on the one hand, the American investment trend is not favorable to the flotation of bonds and, on the other hand, most of the South American governments, states and municipalities that may be considered as good credit risks are not considering new financing or have reached the limit of their capacity to borrow, the task suggests itself of devising new forms of safe and profitable employment of our surplus capital available for South America. Reviewing the experience of England in financing the growth of the United States, it is found that Englishmen first invested in our national government bonds, then in loans to our various states, later in loans to American railways and eventually they began investing in equities and in industry in all its branches.

Our experience in financing South America has followed parallel lines. We now appear to be at the end of the period when loans could safely and profitably be made to government entities. It is only natural that we should now turn to the next door open, to wit: investments in equities. Thus, the apparent turn of American investor's mind from bonds to stocks, the practical end of our interest in loans to governments or in the form of fixed rate bearing transactions, and the growth of investment trusts with apparatus equipped to study and follow the possibilities in foreign markets, these three events appear to have determined the beginning of a new period in South American financial life.

Large Returns on Capital

SOUTH AMERICA offers to the United States a field for future investment much greater and more alluring than Europe. Outside of Russia and the Balkan countries, Europe is rapidly getting to a point where Europeans can largely supply their own capital needs. Investments made there will have to be made upon a basis very little different in return from that obtainable in the United States. Today interest rates in the majority of European countries are actually lower than they are in the United States. On the other hand, South America is now, as the United States was during its era of great agricultural and industrial expansion, essentially a section of high interest rates and large returns upon invested capital.

South America is also a field where enterprises in which capital may be invested are still relatively small units. Our own financial institutions, our utilities, our industries were comparatively small only twenty-five years ago. Few utility units in South America can compare in financial size with even second rate utility systems in this country. Railway systems are largely government owned or owned by English capital. Industries and commercial enterprises are small, local, individual affairs.

The corporate form of organization has scarcely taken hold in most of these countries and such corporations as there are, are still largely family affairs or closed corporations owned by a few individuals. There have been no extensive mergers and consolidations, there are no great chain store systems nor superpower developments. Some of these enterprises, however, are coming about rather rapidly.

The American and Foreign Power Corporation, a subsidiary of the Electric Bond and Share Corporation, has, in the last year or two, spent over $100,000,000 in the acquisition of South American utilities with a view to merger and consolidation and development of centralized distributing plants. The International Telephone and Telegraph Company has been doing similar things in its field. The handsome returns obtained by some of these enterprises are generally known. The United Fruit Company has developed immense plantations of bananas in Colombia and Central America and has grown to be one of the giants among American corporations.

Unprecedented Growth

THIS method of investing by large American utility and industrial corporations in the same or allied lines in South America, while eminently profitable investments and helpful in their way, does not entirely fill the need for capital in these countries. Practically in every country and in every city of South America there are a number of industries already stale in the embryonic stage and crying for new life in the form of fresh capital. In such conditions are found a number of factories manufacturing: shoes, hats, cloth, sugar, bricks, biscuits and crackers, and a long list of other articles. The unprecedented growth of some of the South American cities has made great demands upon housing, and handsome profits have been made by building and development enterprises.

In the fields of banking and insurance, while investments in good American bank stocks earn at present between 2 and 4 per cent, shares in South American banks with long established earning records can be purchased on a basis of 12 to 15 per cent earnings on present prices. The best insurance stocks here yield as little as bank stocks. In South America there are opportunities to purchase stocks in insurance companies to yield 15 to 20 per cent. The same ratios hold for utility investments and the disparity is still greater in commercial and industrial enterprises. An annual return of 40 to 50 per cent on capital invested in industries and commerce is not unusual in South America.

A South American country, Colombia, enjoys the distinction of being the first country in the world to show that commercial aviation under private ownership and management, without government subsidy, may be made quite profitable. The fact is significant that when gauging the economic status of a European country, reference is usually made to its recovery from the war, its getting back to a pre-war level of production, financial or currency stability. South American countries are never measured by that yardstick. There is not a single

South American country that is not far ahead of 1913 levels.

Profitable Fields

INVESTMENTS in South American equities is an interestingly broad subject which involves a number of complexities. A careful comparison between this sort of financing and that of direct lending to domestic enterprises or the investment of a large American concern in one single enterprise in a foreign country, reveals features that eminently favor the former type. The fact is that the possibilities of international complications as a result of investments are reduced to a minimum in the case of equity.

Joint ownership and management by Americans and natives affords, perhaps, the best type of investment in South America. The local element is interested in the progress and welfare of the enterprise. And it usually happens that the local element which is able to invest belongs to the high stratum of society and has influence with or forms a part of the local government. There is little danger, therefore, of misunderstandings with the authorities as to titles, rights or manner of operations.

The enumeration of some facts regarding present economic conditions in some of the South American countries which offer safe and profitable fields for the employment of capital, will convey an idea of opportunities existing at present—Argentina, for instance has 50 per cent of the foreign commerce of South America. About 43 per cent of the South American railway mileage is laid in Argentina. Sixty per cent of the South American railway tonnage is Argentina's. Fifty-seven per cent of South American passengers carried by railroads are transported in Argentina. This country possesses 45 per cent of the number of telephones existing in all South America; 58 per cent of the number of automobiles in South America are found in Argentina. Almost 73 per cent of the total South American gold reserves are found in Argentina. This country consumes about 55 per cent of all the printing paper consumed in South America and yet the population and territory of Argentina are only 16 per cent of those of the whole South American continent.

Great Mineral Wealth

CHILE is a narrow strip of land between the Andes and the sea where a mighty nation, inhabited by a proud and admirable race is found. Chile has no racial problem. The population, a mixture of Spanish, German and Jugo-Slav blood has made such progress in the economic and political fields that Chile at present commands the respect and admiration of its neighbors and the world at large. Her mineral wealth is very great and almost unexplored. Her nitrate fields are the best in the world; it is her most important industry at present, and the wealth and prosperity of the country depends more upon the nitrate exports than anything else. The United States buys annually over 60 per cent of her exports in this line.

Chile's second industry is the production of copper, conducted almost entirely under American capital. Chile is practically an isolated nation dependent upon foreign countries for her exports. As she cannot be an agricultural nation, except in limited portions of the extreme south, where the cattle and sheep industry is being carried on to some extent, she is now turning her attention to manufacturing,—which is still in infancy,—and hopes eventually to establish foreign markets for these manufactures.

Investors in this country are used to hear of Chile as exclusively a mining country and they forget that southern Chile is rapidly becoming a very important center of agriculture and stock-raising activities. Industrial opportunities are unquestionable in this country, especially when considering her potential hydro-electric resources. It may be said that the industrial life of Chile is painfully in its infancy.

Records of Progress

SOUTHERN Brazil has witnessed a striking development in industry and agriculture. Articles manufactured in São Paulo are of the finest qualities and there is ample room for further development. The Government revenues of Brazil have shown substantial increases in recent years and continuous progress has been made along the lines of currency stabilization and banking reorganization. Here is a country with 40,000,000 inhabitants with only 19,576 miles of railways and 33,000 miles of highways.

Peru has shown remarkable progress in the last decade, thanks principally to large investments of foreign capital, the total of which amounted to 99,000,000 of Peruvian pounds in 1927, as compared with 73,000,000 in 1919. Exports have grown 151 per cent since 1919, the national income has shown a 122 per cent increase since that year, production of petroleum has increased 284 per cent since 1919. Since that year, fifty-two cities have been supplied with electric light, 103,023 hectares of land have been distributed among the native Indian population, without disturbing vested rights acquired in good faith. Some 350 sundry public works have been concluded, 2234 kilometers of railroads have been completed, 12,614 kilometers of highways have been built and over 9000 are under construction. Similar progress has been made in irrigation, sanitation and paving. The banking system is patterned after our Federal Reserve System.

Colombia presents an exceptional field for investment. Its unique geographic position on both oceans, which no other South American country enjoys, promises a rapid economic development. The petroleum industry has also shown a remarkable growth in Colombia. In 1927 the total oil production reached 15,760,797 barrels as compared with a little over 440,000 in 1924. Platinum exports have increased from about $500,000 in 1913 to over $4,600,000 in 1926. Railway mileage has shown a 100 per cent increase in the last ten years. Unusual activity has been shown in recent years in the development of telegraph, telephones, electric power and in public works. The Cauca Valley on the west coast has been the scene of a particularly striking economic development during the last ten years. Cali, the capital of the department has more than doubled its population in that period. A diversified number of industries has been established.

A New Tendency Visible

IN Venezuela the fiscal situation prevailing there may be best described by stating that relatively speaking there is not a country in the world in a better financial condition than Venezuela at present. The National Treasury's reserves amount to more than the total of foreign and internal debts of the country. In other words, Venezuela owes not a penny to anyone. This country is now the second largest oil producing country in the world. Production of this mineral grew from 2,117,000 barrels in 1922 to 62,817,000 barrels in 1927. Statistics showing increases in railway, and highway mileage, telegraphs, telephones, automobiles, etc., show striking growth and progress. The coffee industry of the country, until recently the most important, is also in a flourishing condition.

In conclusion, not dwelling upon the great advances made in South America in the field of political stability and fiscal improvement in recent years, larger and larger amounts of capital have been attracted and have been applied in large scale operations based on thorough technical studies, as in the case of the copper mining enterprises of Chile and Peru, and in tin mining in Bolivia. New railroads have been built and old ones improved. In the pastoral regions of Argentina and Uruguay, inferior breeds of sheep and cattle have been gradually replaced by new blooded stock, and large scale cereal production has been introduced.

It seems likely that, as land values and labor costs rise in South America, less emphasis will be placed on the production of foodstuffs and raw materials for export, and a greater diversification of domestic pursuits will follow; commerce will not be so exclusively a matter of trading with foreign countries as it has been in the past. The beginning of such a tendency is already visible in Brazil, which consumes internally the larger part of such commodities as sugar, cotton and tobacco, which it formerly exported. Domestic manufacturing industries, already well established in many regions, will soon supply the larger share of the everyday necessities of the people. From the point of view of the foreign investor, the financial aspects of this process are of primary importance. Comparison is sought with other fields, but it will be found that no exact parallel exists.

EDITORIAL

Fortnightly Settlements

PERIODICALLY in recent years there has been agitation for the New York Stock Exchange to adopt with some modifications the English method of trading in securities. By this is meant the system of fortnightly settlements in vogue in London in contrast to the American method of trading for cash. Interest in this question has been revived recently, notably among bankers.

Perhaps the continued threat of an attempt by Congress at some sort of control of the money market is chiefly responsible for this revival of interest. No clear thinking people want to see Congress undertake an excursion of that kind. The breadth of that feeling weakens the force of the threat.

It may be a relatively simple matter, from a stock exchange standpoint, to make a change in trading methods along the lines followed abroad. But from the banking standpoint there are far-reaching factors on both sides of the question to be considered.

Settlements of stock exchange transactions semimonthly, or at any fixed period, would obviously put an end to violent fluctuations in money rates. Rates would be stabilized at each settlement period. There would not be the attraction of profits as high as 20 per cent that has brought about the spectacular increase in the call loans of "others"—corporations and individuals. The banks would control the money market. Presumably, speculation would slow down.

Yet any system of periodic settlements on the stock exchange must necessarily destroy the call money market. It is an American institution. It has furnished the banks with their most liquid form of investment. In normal times it is the barometer of credit conditions. Now, since the surge of the "others" has deprived the banks of control it is the target for attack from all sides.

To the banks the question is whether it is better to abolish the call money market in order to control some other form of stock exchange financing or to regain the control that appears to be lost. To abolish call loans means to destroy investment facilities of great importance to banks. Relative values must be weighed before banking opinion on this question can be crystallized. To regain control is not an impossibility.

Most of the talk of regulation, which has made up the threat of legislation by Congress, has been aimed at the banks. The banks supply the machinery for call loans which is just as much a banking function as the actual making of loans. But the lending of money on call is not a function of many of the "others" who are responsible for the swollen totals of brokers' loans.

The proposal would not seem to be one of unmixed benefits to the banks but rather one of relative merits of which the banks themselves should be the best judges.

Treasury Bills

FOR the first time since the entrance of the United States into the World War a change of major importance in the methods of government financing is proposed by the Treasury. This is the measure now before Congress to permit the sale of Treasury bills at a discount.

There seems to be every indication that the desired legislation will be forthcoming. The new method, which is a modification of the system employed for years by the British Treasury, would remove some of the rather clumsy features of the accepted American machinery for government financing.

With the use of Treasury bills the government could borrow money when and as needed instead of on the basis of its requirements for three months in advance as at present. By selling bills at a discount the Treasury would be relieved of the problem of trying to adjust its short-term rates to money market conditions over a period of months in the future. These are very generally understood advantages to the Treasury. From the standpoint of efficiency in fiscal operations the plan is hardly open to criticism.

Cooperation of the banks is counted upon by the Treasury to make the proposed method of financing workable. The bills must be sold, as Treasury certificates of indebtedness are marketed, through the banks. The Treasury expects the banks to work with it, even though the new plan means the loss of some earnings in a field of already declining profits. Certificates of indebtedness have been profitable items to the banks in two ways, through their resale and through the Treasury balances set up by subscription to them. Treasury bills sold at a discount do not offer these advantages to the banks.

There is, however, another side to the proposal of much greater significance than the relative value of the projected system to the Treasury or the banks. That is the effect on the money market of the Treasury policy of selling bills at a discount. At the outset it is planned to use bills only in conjunction with certificates of indebtedness. But the pending legislation would authorize the Treasury eventually to abandon certificates as a medium of borrowing altogether. As much as $10,000,000,000 of bills outstanding at any one time would be authorized.

Obviously if the bills prove to be better adapted to government financing than certificates, the latter in time will be dispensed with. From all that has been said on behalf of the bills there can be little doubt of the choice between the two types of securities. It is possible then that later on the Treasury may be rolling over substantial blocks of the public debt in this form of temporary security, as well as meeting immediate requirements.

This would bring something new to the American money market. In London the British Treasury bills are recognized money factors. Their rate of discount is a guide to general conditions and to the effective-

ness of the Bank of England rediscount rate. Presumably somewhat the same sort of situation might prevail in this country if Treasury bills take their place in the scheme of government financing.

Extension in the use of bills by the Treasury will be slow. Their infiltration into the money market in substantial volume will be gradual. Nothing in what might be considered the present money market situation could be affected by the development of the Treasury policy for the marketing of bills, but it is thought that sooner or later they will be a factor which may be more potent in solving some of the problems that have arisen of late than any of the specific remedies that have been advanced.

Stock Market Profits

STOCK market activity is rapidly becoming the convenient explanation of nearly all the financial developments in the country. Federal income tax collections for the March quarter approximated $600,000,000. This was close to $100,000,000 more than for the same quarter in 1928. Widespread activity on the exchange was the general interpretation of the increase.

Perhaps this is true. It can not be determined definitely until the analysis of income returns can be made and that is a matter of months away. Nevertheless it would seem just as logical to attribute the growth of Federal tax revenue to business activity as to stock market activity. In the face of the enormous volume of market operations business has been going on as usual.

It must be remembered that Federal income taxes are not paid until nearly three months after the close of the year for which they are due. When business is good on payment dates many individuals are inclined to pay more of their taxes on the first quarter than they are when conditions are not so favorable. Good business at the opening of the year swells the March collections.

Of course stock market profits have contributed their share to taxable incomes. But are they the sole factor in the increase in Federal revenues? If they are, then the larger collections reflect only a temporary condition, lacking the permanence upon which to base further tax reduction. If they are not, the prospective Treasury surplus, which will be the result of increased revenues, offers another opportunity for lessening the national tax burden and giving another impetus to business.

Capital Gains

IMMEDIATE action by Congress to remove the income tax on capital gains on the sale of securities is the remedy for present credit difficulties proposed by Charles E. Mitchell, chairman of the board of the National City Bank of New York. The basis of the proposal rests upon the contention that under existing tax laws, and particularly with the surtax operating as it does in the higher brackets, investors and speculators have been and are unwilling to liquidate and take profits, but go on holding these securities, leaning on the banks in order to do so.

Mr. Mitchell's suggestion provoked considerable discussion both within and without banking circles and in this connection it may be remembered that the American Bankers Association at its Fifty-fourth Annual Convention at Philadelphia in October, 1928, adopted the following resolution:

"The United States of America is the only country in the world that levies a capital gains tax. We believe such a tax in peace times to be uneconomic and unsound in principle and practice and tending to check the wheels of progress. The imposition of such a tax is doubtless one of the factors in the speculative situation in the stock market, as many persons who have large paper profits hesitate to liquidate now in view of the large tax they would have to pay; and this situation alone appears to be a good argument in favor of the repeal of such a tax. Great Britain treats capital gains as an increment to capital, and it is recommended that the United States pursue the same policy."

This idea is one that is difficult for the average legislator to grasp. He is convinced that a barrier to speculation is to tax the fruits thereof. There are many more legitimate investors in securities than there are speculators, but both are treated alike by the income tax law.

North Dakota Guaranty Law

THE Governor of North Dakota on March 6 affixed his signature to a bill repealing the Guaranty Fund Act of that state. There as in other states the operation of the law had proved to be a terrible drain upon the banks and was weakening the entire banking structure. It was plain that to escape from the drain many banks eventually would leave the state system and convert into nationals and thus impose upon those remaining under the operation of the Guaranty Law still heavier burdens than they have borne in the past. In view of that situation the repeal of the law seemed to be the only logical step.

But under the Constitution of North Dakota 7000 electors at large may by a referendum petition suspend the operation of any measure enacted by the Legislature, except an emergency measure, and notwithstanding the unalterable fact that the experiment of guaranteeing deposits has been tried, found to be unsound, unfair, unjust, and weakening to banks it is reported that petitions are being circulated for a referendum on the repeal.

To obtain signatures to a petition is not a difficult matter, because the individual signer sees himself committed to nothing, and to be free from responsibility. Many sign petitions as a matter of favor and many others sign to save time and be rid of the circulator. So it may come about that a referendum provision designed to promote fairness and justice becomes an instrument of injustice.

What a comment it would be upon the referendum as an institution, if in view of the unhappy experience of all of those states in which the guaranteeing of bank deposits has been tried, a few headlong spirits should through its instrumentality still further delay the final closing of this chapter in North Dakota's banking history.

And in a decision just rendered in Nebraska (reported in this issue of the JOURNAL) the Court enjoins the collection of a special assessment for the Guaranty Fund of that state and says:

"The Guaranty Fund, under the conditions existing, is no protection to the present-day depositors. As a matter of fact it is a burden to the banks and just to the extent of that burden makes them less able to meet the demands of their current depositors by keeping their banks solvent."

Evolution in the Reserve System

By HENRY E. SARGENT

Trend of Federal Reserve Is Toward Greater Centralization. Regional Lines Giving Way Before Force of New Movements in Banking. National Credit Policy Is Coming Into Being with Emphasis on Longer Objectives. Banking Influence Paramount.

NEW forces in the banking field have become a commonplace. Bankers all over the country are aware of them, are studying them and are adjusting themselves to the trends of the times. But what has not been so clearly recognized is that these same forces are making themselves felt upon the Federal Reserve System and there also are compelling readjustments.

Constant clatter of the tickers, the steady increase in the volume of brokers' loans and the general public interest in the stock market have obscured the fundamental changes impending in the reserve system. The clash between the reserve authorities and the call money market has produced something akin to drama in the cut and dried world of finance for close to a year and a half. It has captured attention as an incident and has become almost a sporting proposition, a spectacular contest, yet back of it there lies a long line of new relationships between the reserve system and the banks.

There is a process of evolution going on within the Federal Reserve System of much deeper significance and of much broader application than the question of any immediate amount of credit diverted to call loans. Almost inevitably the Federal Reserve System is becoming nationalized, which is only another way of saying that the trend is toward greater centralization.

Would Lower Their Flag

AMONG the fathers of the Federal Reserve System, to talk of a greater centralization of reserve power is to invite dispute. And yet, oddly enough, some of those who have held the fort most valiantly for regional reserve banking as against central banking are clamoring for legislation which would lower their flag. Obviously any legislation which would authorize the Federal Reserve Board to control brokers' loans must necessarily enhance the centralized power of the system.

Agitation for Congressional action, however, is merely a manifestation of one of the forces now playing upon the reserve system. Legislation is an unimportant aspect of the evolution already under way. Conditions always precede laws.

Thus it is that the new forces in banking are having their effect upon the Federal Reserve System—the strength of circumstance. Adjustments within the Federal Reserve to the changes in the American banking structure have become inescapable.

Behind the Smoke

SKIRMISHES between the Federal Reserve Board and the money market have raised a smokescreen in front of important developments in reserve banking which are beginning to shape themselves. The wide responsibility for the national credit structure now shouldered by the Reserve System carries with it the implication of more centralized authority if the responsibility is to be met. Such a trend is in the direction of central banking.

Broad Responsibility

CONCENTRATION of banking resources in this country is perhaps the most outstanding of recent economic developments. Almost daily there is a new bank merger. Millions are joined to millions, billions to billions. Nor are the mergers confined to the metropolitan centers.

As rapid as the merger movement, has been the development of chain and branch banking. Here also is a concentration of resources. There are fewer banks but the influence of each institution is widening its field. Through chains or branches they cover more territory. Their resources are becoming more centralized.

It is not a question of group banking or individual banking. There are now both in the United States. It is the trend toward mergers, toward chains and branches which has produced a condition to which the System is reacting.

The active stock market of the past two years and its incessant demands for credit have but served to give an impetus to the evolution of the Federal Reserve. The trials and tribulations of the Federal Reserve Board in its efforts to halt the flow of reserve credit into the call money market have but served to emphasize its new problems. Discussing the rapid increase in the proportion of bank credit that is based upon securities, the Federal Reserve Board in its last annual report for 1928 said:

> "When the question is considered in the light of the reserve banks' position as holders of the reserves against all member bank credit, it becomes apparent that the Federal Reserve System's responsibility is not limited to the control of funds obtained directly from the Federal Reserve banks. There is no way of earmarking for special purposes the credit extended by the reserve banks, and even if that were possible, it would still be true, under existing law, that the entire credit structure ultimately rests upon Federal Reserve credit as a base; the Reserve System has a correspondingly broad responsibility."

This is more than another broadside at the stock market. The Reserve Board assumes responsibility, in the name of the Reserve System, for the entire credit structure of the country.

Regional Lines Fall

THE credit structure of the country is becoming nationalized. Banks, Corporations and individuals from all parts of the country have found their way into the New York money market. For the time being at least the call rate has become the master rate in the United States. The national rate is replacing the regional rate.

Similarly regional lines are falling before the mergers, the chains and the branches. Credit is becoming nationalized as resources become centralized. Responsibility for control lies at the source of credit, not at the point of use. Furthermore nationalized credit is influenced by nation-wide movements rather than local developments which may be but a question of temporary supply. This is being recognized.

"It is certain," says the Reserve Board in its 1928 report, "that the Federal Reserve System must steer its course with reference to broader developements and longer time objectives than day-to-day or month-to-month changes in any particular line of credit."

This statement of policy toward long time objectives was made public early in March, when the annual report was issued. Only a month before in its now

(*Continued on page* 1146)

Out of the Credit Wilderness

By FRED I. KENT
Chairman, Commerce and Marine Commission, American Bankers Association, and Director, Bankers Trust Company, New York

Time to Alter Credit Methods Is When Conditions Are Normal. New Laws or Regulations During a Period of Strain Unwise. Intelligent Cooperation Between Stock Exchange and Business Urged as Best Means of Meeting Present Delicate Situation.

CREDIT is the most volatile element in production and commerce. It cannot be controlled in certain ways that have to do with the individual opinions of those who are in position to extend it. On the other hand, it can be driven to cover if conditions of great uncertainty prevail even though there may be nothing intrinsically unsound in the situation. It is, therefore, to be hoped that the prosperity of the country and its reflection in the continued progress for reconstruction in other countries will not be jeopardized by attempted interference by the banking situation in this country.

It is also desirable that political pressure of every character be withdrawn from the Federal Reserve Board which, if left to itself to meet the banking problems for which it is designed, can do so much more effectively and with less disturbance to business than if its acts have to be influenced by possible legislation that might prove to be destructive.

It is humanly impossible for any group of men who may constitute a board to act without promises that depreciate their intelligence if they are obliged to solve problems as they come before them in such manner as to placate political forces for fear of encouraging unfortunate legislation instead of rendering decisions entirely on the merits of the particular cases.

The Federal Reserve Board, through the Federal Reserve banks with their boards, made up of men of experience in many lines, and the Federal Reserve council through which the opinions of experienced bankers can be brought to it is in position, if left alone, to weigh the problems that come before it entirely from the standpoint of the good of the country.

Experienced Hands

EXTRACTS from the report of the Commerce and Marine Commission of the American Bankers Association to the spring meeting of the executive council at Edgewater Park, Mississippi, are given here which present the belief that the continued prosperity of the country requires that the problems involved in the extension of credit be left for their solution in the hands of those who have experience in dealing with them.

Without Publicity

THE Commerce and Marine Commission of the American Bankers Association would like to see means undertaken to develop more clearly just what the facts are surrounding the brokers loan situation, through a research undertaken without publicity within the Federal Reserve organization. With the little knowledge that prevails concerning these loans at the moment, their relationship to national wealth, national income and its uses, national production and the proportion of such loans that effectively represent loans to advances of industry, there is no means of intelligently weighing them.

I might say that the Commerce and Marine Commission put this particular statement in here in order to help the Federal Reserve System in developing such a research because they wish to feel that the bankers would like to have it undertaken as, in order to carry it on, it will be necessary for them to apply to the banks for information and sometimes of a character that the banks might hesitate to give unless they realized its necessity.

Funds obtained by corporations for the purpose of enabling them to carry on and expand their business are received from the issuance of securities or loans. When securities are issued underwriters must distribute them over such period of time as is required for the market to absorb them. In the meantime they are carried as security loans. Industry actually receives the funds in such cases with the same certainty as if they had been borrowed from banks.

Forward Looking Men

DURING periods of great expansion industrial organizations require funds or the positive knowledge that they can obtain them when required in amounts that are far in excess of any credits they might obtain through bank loans. Further, the methods under which they must utilize such funds are often in part of a character that are better supplied through participation of ownership than by means of bank credits.

During a time of great ease of money, such as prevailed in the United States subsequent to the recent rise in the cost of money, there is a tendency on the part of forward looking men in industry to obtain such funds as they anticipate they may need over a considerable period, and on a basis that will not require repayment in a high money market. This means the issuance of preferred and common stocks.

When sound organizations, run by men of ability, take the public into partnership through the issuance of such securities, and while doing so are enabled to strengthen and widen their organizations in such manner as to stabilize labor and better control production from the standpoint of all concerned, it is of tremendous value to the general public. It means the payment of higher wages with a consequent high standard of living and a consumer's power that enables greater distribution of farm products as well as production of every other character.

During the two years of 1927 and 1928 domestic securities issued in the United States amounted to about sixteen and one-half billion dollars, and foreign securities $2,564,000,000, or a total of about $19,000,000,000. Brokers loans increased during the same period $3,147,000,000. In other words, if the brokers loans meant merely the carrying of those new securities it would show that $16,000,000,000 had been distributed and were actually owned by the public.

Into New Lines

IT has been found that small concerns engaged in multitudinous enterprises instead of having been eliminated

through such operations have increased in number, and in effectiveness, from their own standpoint although their activities often have to be guided into new lines. But this is true with every producing organization regardless of its size, for the character of output must continually be modified to meet the changing desires of the people that come about because of new inventions and discoveries and increasing density in population.

The New York Stock Exchange is the one great central distributing force in the United States upon which the industry of the country must primarily depend for its capital funds, and to which the investing public must look for its market whether it wishes to buy or to sell. Jan. 1, 1929 the shares of stock listed upon this exchange were 757,000,000, with a market value on the same date of $67,000,000,000. The market value of listed bonds at that time was $47,000,000,000. The total value of all listed securities on Jan. 1, 1929 was $114,569,728,724.

The whole of this vast sum was owned outright by holders except that part against which money had been borrowed in the form of brokers loans amounting to $6,440,000,000, and such other security loans as may have been obtained here and there for the same purpose.

The business of the Stock Exchange is based upon positive delivery of securities sold in every case. The American public has been receiving a tremendous income for a number of years averaging somewhere around $70,000,000,000. A portion of such income is required for living expenses, a portion is utilized to meet expenses that are not essential, another part maintains the charities of the country, and further funds go to the government in the form of taxation. What is left goes to increase bank deposits, the purchase of securities, and to expand or enable the continued maintenance of business.

Partial Payments

THE intelligent methods of production that have been developed in the United States, the high degree of integrity that has been built up in our great business organizations, and the opportunity afforded to distribute production because of the increase in consumers' power made possible partly through high wages in this country and to a very large extent through the growth of foreign consumers' power that has been developed as stabilization of foreign currencies have been brought about, which progress has been greatly aided by American loans in foreign countries, has resulted in a high average of prosperity over an unusual number of consecutive years.

There has been a growing belief on the part of the public that the greater intelligence which seems now to be applied to production and distribution means the opportunity for continuing profits on an important scale for some time to come. The result has been a tremendous public interest in the security market that has been exercised by means of purchases in full or in part. Where purchases have been made in part, in the first instance, it was in many cases with a partial payment applied to securities, as it has been to automobiles and other classes of production.

The constant issuance of new securities and increased earnings of great numbers of corporations, with the excellent prospects for future earnings, have worked together to link people of many classes who have funds to invest to purchase more securities than they would otherwise have thought of doing. Such individuals, added to those in the market who make it their business to purchase securities solely with the hope that they may be sold later at a profit and with no idea of permanent investment, but upon whom all other investors depend for a broad market for their own securities, could not help but result in a market stimulation of tremendous proportions.

Foreign Money Protected

THE first control of such a situation lay in the hands of bankers and brokers who, as prices have gone higher and higher, have constantly increased margin requirements. This has been carried out so effectively that a great menace was lifted off the market, as it would take a perpendicular drop of many points to uncover sufficient margins to cause a wholesale dumping of securities on the market with the attendant losses and probable failures that would ensue, together with a shock to business that would almost certainly result in the slowing down of production.

Further, the price of money was raised and, as is always the case, the first effect of such action was to draw money from every source which was attracted by the price, all things considered. Foreign funds, naturally, moved into the market more slowly than domestic funds. Before foreign funds are attracted in large volume, there must be a belief that high money rates are going to prevail for a sufficient time to warrant their transfer. No one in Europe would be tempted to buy dollars with his local money in order to obtain 15 per cent for one day and subject himself to a possible fluctuation in the value of dollars that would mean he would have to sell them at a discount over the cost to him. This difference, even on 15 per cent money for one day, would be less than one-twentieth of one per cent to create a loss.

As the money market developed during 1928 in New York, however, there seemed to be sufficient reason to believe that it would be maintained to lead many foreigners to buy dollars and take the chance that when they wished to sell them they could obtain a price that, together with the interest received, would make the investment a profitable one.

Foreign money markets, therefore, while they have been effected to a certain very positive extent by the high call money rate in New York City, have been protected by the existence of the exchange rate, and to an extent that has so far prevented untoward disturbance in the foreign money market.

While the earnings of industry are growing, and the prospect for them to continue to increase exists, it is possible for those who may be carrying stocks on margin to pay higher rates for money than is represented by the dividend or interest return on the securities which they own because of the appreciation that they can reasonably expect will occur in the price of such stocks. However, the time is certain to come when the price of securities, if they keep on mounting, will be such that they can only be carried on high call money at a loss that will be represented by the difference between the money price and the dividend or interest return.

Over the Peak

SINCE the war, millions upon millions of individuals in the world have had developed within them desires that never existed before for things of many kinds. Such desires multiplied consumers' power because millions of people were striving to obtain such power in order to be able to buy the things for which a desire had been created. Along with this tremendous increase in desire came the ability of industry to produce articles in great numbers of units at greatly decreased costs of production. There has, therefore, been an expanding demand and supply, and while this continues a tremendous world distribution of goods must prevail. Those particular inventions and discoveries which have been brought out, and may continue to bring tne peoples of the world closer together, such as the movie, the radio, and the airplane, are most effective in extending consumers' desire with its attendant growth of consumers' power and demand.

Stock market prices are trying to overtake this movement, but it is conceivable that new inventions and discoveries, and the extension and creation of new desires, unless attended by important catastrophes, can prevent its doing so for some time to come.

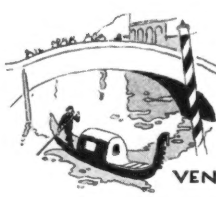
There is, therefore, much that is sound in the values that the people are according important, well-managed, producing organizations and their kindred industries. The situation is also greatly strengthened by the fact that commodity prices throughout this development have been normal and without influencing a condition which exists today. Every rising security market is reaching toward its high point after allowing for these and any other conditions which may exist, and the time of its arrival is measured by the speed with which prices increase in proportion to the speed with which business and earnings grow.

The efforts of those who deal in money and credit are concentrated upon the fact that if there is greater expansion and inflation, it can only be brought within control after disaster. On that account American bankers have been increasing their margin requirements, and the Federal Reserve System has been

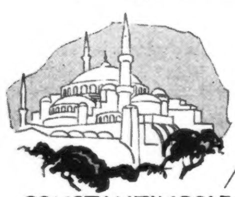
(*Continued on page* 1147)

LONDON

PARIS



VENICE



CONSTANTINOPLE

When Texas Proved the Cheap Money Fallacy

By A. H. HARRIS

European Currency Ills Had Counterparts in Lone Star State. The Old Republic of Texas Found that Issuance of Paper Money Unsecured by Gold or Silver Brings Unescapable Evils. Texas Redbacks Were Forerunners of the American Greenbacks.

Texan Teachings

OVER-WORKED post-war printing presses flooded several of the European countries with unlimited supplies of paper currency with lamentable results which are familiar to everyone. But few are aware that the same thing was experienced by the Republic of Texas which broke away from Mexico and set up a sovereign state that remained independent for a decade until admitted to the Union. In these days when the gold standard is often attacked the experiences of Texas is a lesson.

THERE is one great fact in respect to irredeemable paper money, which, in itself, is a sufficient answer to all the arguments that may be advanced in its favor. It is that there cannot be one single instance referred to in the history of any state, nation, or people, in which its adoption and use have not been wholly disastrous.

There is an example, little known, and rarely, if ever, referred to, which occurred within a comparatively recent period of time, and under conditions analogous to those which, in the opinion of many persons, render the United States an exception to all the rest of the world. This is the fiscal experience of the Republic of Texas, which, during the brief period of its existence as an independent nation, committed on a small scale nearly all the financial blunders, and tried nearly all the financial experiments which the older nations of Europe have before or since committed and tried on a larger scale.

Simply because little has been written about the days when the Republic of Texas—ambitious experiment in government in a country in the raw—went money mad does not detract from the fact that the young nation joined heartily in the project to make itself and its neighbors believe that there could be such a thing as irredeemable paper currency. The experiment is buried in the archives of the nearly-forgotten Republic, erected on the remains of Spanish rule of the North American continent.

Other countries may have tried the experiment with paper money so long as the printing presses would run, including Germany a few years ago, but the example of Texas brings the matter so close to home that an illuminating bit of history may well be written. The story is unique in this that Texas was a great region of raw land and of pioneer stock trying to subdue the wilderness with few, if any, precedents to guide, and no laws to limit the ambitions of "statesmen" and politicians.

Built on Raw Land

PREVIOUS to the year 1835, Texas was one of the states of the Republic of Mexico, and its currency consisted of gold and silver and, to a very limited extent, of the notes of banks of the United States. As the civilized population was small, no large amount of currency of any kind—or all kinds—was required to meet the needs of the people. A great part of the Texas currency consisted of what were termed "hammered dollars," or old Spanish silver dollars from which the royal effigy had been effaced by the Mexicans as a testimonial of disrespect for their former rulers. Time contracts were, however, made in terms of new Mexican dollars, which were termed "eagle money," which circulated at 100 cents on the dollar. The "hammered" dollar, though containing fully as much pure silver, circulated at ninety cents; the probable reason for its depreciation being that the destruction of the certificate of value, affected by the defacing of the stamp, also prevented its use in settling foreign exchanges and, consequently, its exportation.

After the outbreak of the Texas Revolution and the inauguration of the provisional government, in November, 1835, "hammered" money gradually disappeared from circulation, and banknotes from the United States became the chief currency of the Republic. In 1837, the banks of the United States suspended specie payments. The result was that all of the circulating media of the Republic of Texas became greatly depreciated and a very considerable portion which was derived from the banks of the State of Mississippi became altogether worthless. Suffering was widespread among the people, and the problem was one not to be easily handled.

The Dollar Decision

FROM the first the Texans appear to have struck out on a new line of financing and would have none of the Old World methods, not even the ideas of bankers and political economists that the circulating medium of a country should be based on the precious metals. The wise men thought that cheap land was more precious than gold or silver—or both, for that matter—and they built a "system" of finance upon raw land, and plenty of it. Texas seemed to have unlimited areas of cheap fertile land unspoiled by the hand of man. The Republic was composed of all of the present State of Texas and much of New Mexico, Colorado, and Wyoming as well.

As a matter of fact, the Republic of Texas was not the only country that had no well-defined unit of value. William M. Strong, of Pennsylvania, Associate Justice of the Supreme Court of the United States, had not taken his seat on the bench at the time in question, and it was not until 1871, or thirty-six years later, that the Supreme Court rendered its famous "dollar" decision. The court held:

That "value is not an ideal thing"; that "it is hardly correct to speak of a standard of value"; that "the gold and silver thing we call a dollar is in no sense a standard of a dollar"; in fact, that anything is a dollar which the law-making power may imagine it to be, and that it is not at all necessary that their "imaginings" for one year should be their "imaginings" for some other and subsequent year.

Things were just beginning to move when the news was received of the general failure of banks in the United

States, following the crusade of President Jackson, in 1837. To supply a circulating medium, a need occasioned by the discredit of banknotes issued in the United States, individuals and municipalities commenced at once the issue of "shin-plasters," or notes for the fractional parts of a dollar, and continued to do so until 1840, when an end came to the practice largely through the bankruptcy of the issuers of the "currency."

In the meantime, the Revolution had been in progress and funds had to be found to finance it. At the outset the Republic had few financial resources. It had for sale the pledge of its lands as the principal and basic item.

The men who had undertaken to make Texas a free and independent Republic were typical emigrants from the frontiers of the United States, and lacked nothing in self-reliance, audacity, enterprise, an initiative, to say nothing of experience in governmental affairs. The first feasible and ready method of collecting revenue to carry on the government that suggested itself was that of collecting duties on imports. The Legislature made a tariff law December 12, 1835; a new tariff law was made December 27, following. In ten years—its brief span of life and experiment—the Republic of Texas had no fewer than seven distinct tariffs, thus early showing the way for the Congress of the United States twenty or twenty-five years later.

Commissions were appointed to borrow $100,000 at a rate of interest not to exceed 10 per cent on bonds running for not less than five nor more than ten years, with the pledge of the public faith, the public lands, the public revenues, in short, everything that Texas possessed or claimed or hoped to get, in the way of security for their repayment. The bonds were largely disposed of in the United States—quite naturally, it would seem. An earnest sympathy for the welfare of the Republic was thereby created among the bondholders, and this sympathy was ultimately most powerful in securing the annexation of Texas to the United States, and, subsequently, an appropriation by the Congress of $10,000,000 with the understanding that the funds should be used in the payment of the debts of Texas.

Drew on Itself

THERE were rather long-headed men in Texas even at that early day. Here is what the chairman of the National Committee of Finance said to the congress of the Republic, December 16, 1835:

> "An outstanding national debt may in many respects be looked upon as beneficial, by a community isolated and dependent as Texas, if the creditors, as such, can afford us substantial patronage. And, until we can stand immutable among the nations of the earth, your committee would advise that the pecuniary interests of our creditors will excite for us the sympathy and protection of mankind."

The national treasury was first established, so far as the election of a treasurer could establish it, in November, 1835. Previous to this time there had been a Fiscal Committee, and this had made a report which, as the first official financial document of a *de facto* government, destined in the course of the following years to come into possession and control of a territory larger than France, deserves to be preserved and handed down to posterity.

The formal establishment of a national treasury was one thing; the providing of actual money was quite a different and difficult thing. And, as sufficient funds for defraying the expenses of the government and equipping and paying the army did not come from any or all of the expedients of taxation, loans, the establishment of companies with banking privileges, the sale of land, or the seizing of private property by land and by sea, the Republic next undertook to pay its way by the simple method of drawing drafts on itself.

Treasury Notes Issued

TO give the government drafts credit and circulation, an Act was passed by the Congress, in December, 1836, providing "that it shall be the duty of the several collectors (of customs) to receive the orders of the Auditor upon the Treasury of the Republic when offered by importers in payment of duties at the time of importation"; and in June following, it was enacted "That properly audited drafts on the Treasury of the Republic shall be received in payment of taxes imposed, except on billiard tables, retailers of liquors, and nine-pin alleys, or games of that kind."

By these two acts Texas gave her audited drafts on the national treasury greater value than they would otherwise have possessed and caused them to pass into hands of persons or firms that otherwise would not have received them. From first to last, the issue of these audited drafts amounted to $7,834,207. The drafts gradually depreciated in value, and in December, 1837, a year after the enactment of the law authorizing their reception for custom duties, another act was passed declaring that the Republic would no longer receive such drafts in payment of debts due itself.

The greatest stroke of financial maneuvering on the part of the new Republic was made in November, 1837, when the government commenced the issue of Treasury Notes. These notes were in the form of banknotes and were isued for even sums and for small amounts. The notes were to be received in payment for lands, and for all public dues, or they might be redeemed with any moneys in the Treasury "not otherwise appropriated."

Right here commences by far the most valuable of all the lessons deducible from a study of the fiscal experience of the Republic of Texas—a lesson exceptionally interesting from the circumstance that it shows that the working and effect of a system of irredeemable paper money is one and the same, whether the field of its influence be a rich, densely populated old country, like Austria, Germany, or Great Britain, or a disturbed, thinly populated community with little accumulated capital, occupying, as it were, the very borderline between barbarism and civilization.

At Par with Specie

THE most interesting fact connected with the history of the Texas Treasury note is that although the credit of Texas was, at the time of issue, so bad that a foreign loan could not be negotiated, and the audited drafts of the Treasury had so far depreciated as to have a value as low as fifteen cents on the dollar, yet the notes themselves, though practically unredeemable, were, when first issued, at par, or nearly par with specie, and, furthermore, were kept so for months until their issue exceeded $500,000.

The explanation of this phenomenon is not difficult. With the outbreak of the Revolution the "hammered" money and the "eagle" money soon disappeared from circulation. With the failure of the banks of the United States, in 1837, the notes of the banking institutions of the southwestern states, which had come like a flood and had supplied Texas with a sort of currency, became worthless, while the issue of "shin-plasters" or fractional notes of persons or firms or municipalities although continued, was by law forbidden. The want of some sort of medium that should have one value and would at least tend to regulate prices and facilitate exchanges, was therefore much felt, and when the government gave the people the best medium it could, threw around it all the safeguards and guarantee that seemed possible, and issued only such amount as was necessary to meet specific needs, the people, in turn, accorded the medium a value in proportion to the work it performed or the need it supplied.

The original Treasury Notes, although intended to serve as currency, were, nevertheless, from the fact that they carried 10 per cent interest, in reality, a sort of national bond. Being issued in even sums of small amounts as low as one dollar, they were taken up as investments or were speculated in by persons of small means who never regarded themselves as investors or capitalists. Very considerable blocks of the notes found their way into the United States and were held out of circulation.

New Notes Had Red Backs

IN the spring of 1838, "An Act to define and limit the issue of promissory notes" was passed by both Senate and House of Representatives. The bill authorized an additional issue of $150,000 of the Treasury Notes. President Sam Houston promptly vetoed the measure. Another bill was prepared, which allowed the President to increase the amount of Treasury Notes to $1,000,000, if, in his judgment, the interests of the country required such action, and at the same time specifically appropriated $450,000 of such notes—an amount nearly equal to the whole existing issue—to the payment of the expenses of the army and the navy and to meet civil indebtedness. The objections of President Houston

(Continued on page 1149)

Bridging the Chasms of Business

By FRANK R. SURFACE
Assistant Director, Bureau of Foreign and Domestic Commerce

Government Planning to Chink the Gaps in American Industry. Proposed National Distribution Census Would Trace Movement of Goods from Raw Material Through Manufacturing Processes Into Consumers' Hands to Uncover Leakages that Cause Losses.

FROM eight to ten billion dollars is wasted every year through the ineffective functioning of certain portions of that titanic machine which we call American Business. This statement may sound, to some people, like fantastic hyperbole—it may seem incredible in view of the undoubted prosperity prevailing in most industries—but it nevertheless represents the opinion of trained observers and economists.

That waste takes widely varied forms and may be attributed to many causes—frequently concerned with faults in distribution. Among these are such factors as "lack of standards of quality," "lack of standards of grade," and "unnecessary number of sizes and varities." Bad credits make heavy inroads into profits. Lack of uniformity in business practices, in terms and documents, engenders misunderstandings, frauds, and disputes. Other controversies arise from the deterioration of goods. Disorderly marketing brings about excesses or shortages of commodities.

The wheels of commercial progress are obstructed, to a degree, by unintelligent competition on the part of persons possessing little or no comprehension of the fundamentals of business. Lack of knowledge of markets results in losses, misdirected sales efforts, or uneconomic radius of distribution—thereby increasing distribution costs.

Where Profits Are

INFORMATION is being sought by the government which may revolutionize credit lines now extended to business men by bankers by making available a new test of earning capacity which is selling efficiency. It is proposed to carry the doctrine of elimination of waste in industry beyond production so that it will include distribution, the inevitable accompaniment of prosperity, in order that business may be done where profits are known to be and not blindly on the basis of hope.

Orderliness in Business

THERE is reason to believe, in fact, that the largest percentage of this lamentable waste occurs in the field of distribution. To cut down such losses—to eliminate them to the greatest possible extent—is one of the most momentous, most exigent tasks confronting business communities today. And those who have carefully surveyed the situation believe that much can be accomplished toward that end through the medium of the national census of distribution which the Department of Commerce hopes to take next year, and for which preliminary plans are now being formulated.

This should benefit everyone—from the factory-owner and his banking connections down to the humblest consumer who buys a spool of thread or a can of sardines from the shelf of an independent merchant or a chain-store. It will be a long step in the direction of strict orderliness in business. It will further (and extend in scope) the process that economists have been stressing so insistently under the name of "rationalization." It will be a signal example of the policies promoted by Herbert Hoover when he was Secretary of Commerce and which have been aptly designated, by certain commentators, as "fact-engineering."

Gaps and Chasms

IT would seem that one may advantageously consider the present-day American commercial structure from a standpoint comparable to that of the engineer. Looking at our distribution system dispassionately, as a piece of machinery, we are justified in asking: "Does this mechanism function smoothly and swiftly? Is it designed to stand all strains and stresses that may conceivably be brought to bear upon it? Has it attained the desirable degree of simplicity? Does it operate with the minimum of friction and the maximum of economy?"

Our industrial mechanism would, in many ways, make an admirable showing under such a rigorous engineering test. But the majority of informed observers will agree, I think, that our distribution methods come far short of the specifications that one is warranted in setting up.

Too much is left to chance. The hazy and the haphazard play too great a part. We are inclined, perhaps, to rely a bit too confidently on our tremendous "sales aggressiveness." Through lack of certainty, our business men "fumble" some of their finest opportunities. Where they should grasp, they grope.

We have accumulated vast funds of data about American economic resources and operations, but there still remain, especially in this field of distribution, altogether too many gaps and chasms—over the unsuspected edges of which the unwary commercial wayfarer may plunge to disaster, or to discomfiture at least.

Many Unknown Quantities

IT should be our purpose to fill in such chasms or to bridge such gaps. And, here again, is there not an analogy to the task of the engineer? If an engineer is building a bridge, he can work only on proven principles—with definite equations. He must know the precise value of every factor in those equations. When the structure is being built, there can be no "X's" representing unknown, uncomputed quantities.

But, unfortunately, in the vital field of merchandise distribution there are still a very large number of such unknown quantities. We must do our utmost to banish these, and to substitute carefully determined values. As Secretary of Commerce R. P. Lamont has recently said, we must (so far as possible) enable the business man to "proceed on a basis of sound knowledge, instead of on surmises or attempted divination."

Information is needed, particularly, as to the number of wholesale and retail establishments, number of employees, salaries and wages, inventories, and sales by the various classes of commodities. The realization of this need resulted, in 1925, in a general conference concerning distribution. The Director of the Census did not deem it advisable to ask Congress for authority to take a nation-wide census of distribution until a test census or censuses had been made in

order to determine the type of information that would be available, and its value after it was collected and published. It was therefore decided to take a trial of census of distribution in Baltimore during the early part of the year 1927.

Soon after this census was in progress in Baltimore, it was satisfactorily shown that there was a great deal of valuable information available. It was found, as a rule, that the merchants were anxious to have more accurate data concerning their business, and they therefore gave their cooperation gladly. It was then decided to extend the test censuses, and the following cities were selected: Atlanta, Ga.; Chicago, Ill.; Denver, Colo.; Fargo, N. D.; Kansas City, Mo.; Metropolitan Providence, R. I.; Metropolitan San Francisco, Cal.; Seattle, Wash.; Springfield, Ill.; and Syracuse, N. Y.

Business Guide-Posts

THIS "experimental" census of distribution developed countless arresting facts—facts which would be fascinating merely from the human-interest angle even if they were not so significant and useful as guide-posts for business men.

The census shows, for example, an amazingly large percentage of retail sales now going to a comparatively new merchandise group—that of automotive products. Motor cars and their accessories now account for at least 12.10 per cent of the retail dollar. This class of goods now ranks even above furniture and housefurnishings, and, in fact, above all other groups except food and clothing.

Local peculiarities strike one very forcibly in studying the facts adduced by this preliminary census. Why, for instance, should sales of house furniture, in relation to the total retail sales, be larger in Providence than in any of the other cities, while sales of office equipment there are less, comparatively, than in any other city except Syracuse? Such is the indisputable fact—indicative of certain tendencies that manufacturers and distributors might advantageously consider.

Merchandise is constantly seeking new outlets. We find that cigars and tobacco are sold in twenty-two kinds of stores. "Boot and shoe" stores are discovered to be dealing in no less than thirty classes of goods, including crockery, drugs, and musical instruments. But, if saxophones are sometimes sold in shoe stores, there is a "reverse" of that situation. One of our investigators went into a "music store." He found the musical goods pushed off to one corner, while the proprietor was apparently devoting most of his efforts to the sale of groceries, canned goods, milk and bread. Related and entirely unrelated types of merchandise now find themselves side by side in nearly every type of retail store.

These things are symptoms of the present-day confusion in retailing—and, in fact, in most of the phases of our distributive system. Probably never before in the history of merchandising has there been such an overlapping of activity—such an ambiguity as to functions—such surprising clashes and upheavals and bold invasions of hitherto alien territories.

Distribution is emphatically in a state of flux. The rapidity of the changes within the past few years has been positively startling. And all the difficulties inherent in that fact are enormously accentuated by our relative lack of knowledge as to precisely what is happening. We need dependable data. Such information will help not only distributors and retailers but manufacturers as well. We are confronted by such questions as "What is the true magnitude today of sales through chain stores?" Until our experimental distribution census was taken in the eleven cities in 1927, there had been only vague estimates on this point, and those were so widely at variance as to be almost ludicrous in some instances.

In all, more than 93,000 retail establishments and 17,000 wholesale establishments were enumerated in the experimental census. The retail sales aggregated $4,224,109,100. Current estimates of the total annual retail business in the United States center about the figure of $40,000,000,000—so, on the basis of these estimates, the experimental census of distribution included approximately one-tenth of the retail trade of the United States.

Now it was found that about 85 per cent of the stores enumerated were independently owned, and these accounted for $3,011,090,300, or 71.3 per cent of all sales. That left 14,150 chain stores, or 15.1 per cent of the total number, accounting for $1,213,018,800, or 28.7 per cent of the business. For the census as a whole, the average sales per chain store were $85,726, as compared with average sales per independent store of $37,743.

Disquieting Figures

IN any attempt to judge these figures at the present time, it must of course be remembered that there has been a pronounced change even since 1927. All the evidence at hand would indicate that this shift has increased the proportions of the business to be credited to the chain stores.

Concentrating our attention for a moment on the independent stores, we find a surprisingly large number of these whose annual volume of business is less than $25,000. In fact, approximately 28 per cent of the establishments reported a volume of less than $5,000 each—and the degree of their profitableness is suggested by the fact that only 1.68 per cent of the business was done by this class.

Standing out very sharply is the fact that, when this experimental census was taken, 46.5 per cent of the independent retail stores were doing only a little more than 5 per cent of the total volume of business—while, on the other hand, one-twentieth of 1 per cent of the number of stores were doing 16.5 per cent of all the business.

These figures are undeniably disquieting. With respect to a vast number of small stores, they reveal an insecurity, a "precariousness" of operation, which deserves to be most carefully considered by every element in our American business life—with a view to the betterment of conditions, wherever that is possible.

To Avoid Large Losses

THE experience gained in making the test censuses has been of substantial value to the Department in planning for the national census of distribution. We have found many places where improvements can be made. It has been ascertained that retailers and wholesalers keep a great deal of pertinent information that was not included in the test censuses.

The census promises to show, for the first time in the history of the country, the total value of retail and wholesale business by classes of stores and by commodities for a large percentage of the total sales. It will certainly be of very great value for business men to know the total sales of the various types of merchandise and the several classes of stores through which they are handled in each of the important cities, and also to have this information available by state and other political subdivisions. With the present lack of knowledge as to how and where sales are made, and in what volume, manufacturers and wholesalers often find it impossible to prepare sales territories intelligently or to plan their business in a genuinely efficient manner.

They will be enabled, by the new census data, to avoid the large aggregate losses which inevitably result from the vigorous canvassing of trade whose scanty and highly diversified purchases are incapable of yielding a profit commensurate with the cost and effort of obtaining the orders. In such cases, the expense of selling often eats up any possible profit—yet the injudicious and maladroit effort goes on, and its unwisdom is not clearly realized by those responsible for its continuance.

While it is surely desirable to encourage the small business men and make them more efficient, it is vastly important to our consumers, as a whole, that distribution expenses be lowered. As a result of the test censuses, we are told by some manufacturers and other distributors that more infrequent calls will be made on the smaller stores—though, at the same time, care will be taken to render a satisfactory sales service to this class of merchants.

Vast Monetary Savings

IT has been suggested that a special inquiry should be added to gather accurate data with regard to industrial purchases by manufacturers. This is ordinarily referred to as the "raw-material census." A test census of this nature was taken in Cleveland, Ohio, to ascertain the practicability of incor-

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Grain Trading Under the Statute

By J. M. MEHL

Government Regulation of Future Trading on Grain Exchanges Fails to Prevent Speculation or Erratic Price Fluctuations at Times. Government Attitude Described as One of Friendly Interest and Desire to Improve Facilities for Operations.

REGULATION of the grain exchanges by the Federal government is limited in its scope. Exchanges that operate a futures market are the only ones subject to regulation and these are affected but to a partial extent.

The authority for regulation is found in the Grain Futures Act of 1922 and this in turn rests upon the constitutional powers of Congress to regulate commerce. The law is the outgrowth of thirty-five years or more of congressional investigation and debate concerning speculative evils and was passed in response to the insistent demands of agricultural interests for some measure of control over what they long had regarded as a too convenient instrument for the manipulation of prices.

Compared with some of the proposed legislation, the Grain Futures Act is extremely mild in its provisions and seeks only to correct certain practices and conditions that have been regarded generally as attaching discredit and disrepute to otherwise useful and desirable agencies of commerce. In many respects the Act is different from the ordinary form of regulatory law.

Instead of vesting large discretionary powers in a regulating body or commission, the law specifies the abuses that are to be corrected and fixes the responsibility for preventing those abuses directly upon the grain exchanges themselves.

A Lesson Overlooked

PERSISTENT agitation in Congress for new legislation aimed at Wall Street activities seems to overlook the lesson of nearly six years of government regulation of trading in grain futures. Experience has shown that Federal statutes do not accomplish all of the things of which they are thought capable nor is their enforcement always accepted without determined opposition. This article is a sympathetic analysis of the working of the grain futures law.

Regulate Themselves

THE law does not undertake to dictate how trading shall be conducted; it exercises no control over commission rates or other charges and assumes no general supervision over the activities of the exchanges. The usual form of regulation would commit this power to the government.

Under the terms of the Grain Futures Act no market may be licensed to carry on trading in grain futures unless it meets conditions and assumes obligations described briefly as follows: It must be suitably located with respect to the sale and movement of grain and the availability of a satisfactory inspection service; it must undertake to prevent the manipulation of prices by members and operators; it must undertake to prevent the dissemination of false and misleading crop and market information; it must not deny membership representation to properly qualified cooperative associations of producers, and it must provide for making effective the final orders of the government in case of violations and for making effective the lawfully authorized rules and regulations of the Secretary of Agriculture relative to the keeping of records and the filing of certain reports. Punishment by fine and imprisonment is prescribed for persons violating some of the provisions of the law.

The exchanges always have claimed that they are better able to prevent manipulation and other trade abuses than any other agency. The law then takes them at their word. If they fail to do what they have voluntarily assumed to do when licensed as futures markets, their licenses may be revoked and the right to maintain a futures market thereby lost. Thus exchanges subject to regulation are permitted in a way to regulate themselves so long as they do a good job of it, but here also the right of self-government belongs to those capable of governing themselves.

It may be stated as axiomatic that no business and no industry surrenders willingly to government regulation no matter how mild it may be or how necessary from the viewpoint of public interest. The grain exchanges were no exception. They fought the enactment of the Grain Futures Act from every standpoint. After it became a law they sought to have it set aside as unconstitutional but failed. A suit brought by one large Chicago firm and later joined in by several other firms is pending now in United States District Court to enjoin the government from enforcing certain regulations of the Secretary of Agriculture relating to the making of reports and the examination of records.

Objections now appear to center largely on a regulation which requires clearing members to report specially on the accounts of large traders. Clearing members of the Chicago Board of Trade, for example, must report all accounts on their books that show a net open position in any wheat, corn or oats future equal to or in excess of 500,000 bushels. In the rye and barley futures any account showing open interests of 200,000 bushels or more must be reported. The reports are made daily by secret key numbers or symbols.

Less Speculation

THESE reports are intended to inform the administrators of the law concerning the speculative operations of large traders and groups of traders so that questionable practices may be discovered and steps taken to free the market of improper influences as much as possible.

It is claimed that the reporting requirements have driven speculators out of the market because they object to having their operations made known to government officials; that in consequence the markets have been narrowed, prices depressed, and the volume of trading reduced to a large extent.

The most amazing kinds of statements have been broadcast over news tickers and through the daily press in support of this view. It has been made to appear that regulation of future trading has settled over the famous Chicago Wheat Pit as a "black plague," driving buyers out of the market and leaving nothing but the vacuum of fleeing speculators to support the farmers' side of the market when they need to sell.

So vigorously and persistently has opposition to the regulations been

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A Billion of American Capital in Canada

By C. W. SHORT
The Canadian Bank of Commerce, Toronto

The Country, Regarded by So Many as Deriving Its Wealth Principally from Agriculture Has in Recent Years Made Great Strides in Industrial Development. Industry Now Sweeping Into the Prairie Provinces. Has Forged Ahead in Some Manufacturing.

CANADA has long been known as a country with great agricultural and forest assets and, therefore, one where farming and timber-felling are preeminent. This is a quite reasonable view, for undoubtedly these two resources laid the foundation for Canada's economic structure as it stands today. Mining also has contributed to Canadian economy, particularly in recent years, in which the discoveries of precious and base metals rank among the most notable in world mining. The fisheries on the Atlantic and Pacific Coasts are the chief support of many Canadians, and are among the most important on the globe. This combination of natural resources could rightly be regarded as sufficient to sustain a nation in prosperity and to provide for continued progress along a broad economic front, but it is apt to obscure another major factor in Canada's advance to a high place in world commerce, namely, industrial expansion.

Most of the leading nations in world industry owe their rise to the so-called "industrial revolution," but Canada's advance in this direction is the result of "industrial evolution." For two and a half centuries Canada was a colony, first of France and then of England, and as such was regarded merely as a source of raw materials and a market for the parent country's manufactured wares. In fact, industrialism was discouraged, if not actually held in check. But colonizers must be enterprising, and so we learn that the first harvest in Canada, in 1605, was immediately followed by the grinding of grain, the beginning of a great flour-milling industry. Other primitive forms of manufacture were developed, mainly to meet the most pressing needs of these early settlers for food, clothing and shelter when supply ships from France were delayed or lost at a time when an ocean voyage was a dangerous undertaking.

Cloth from Basswood Bark

ON one occasion, in 1705, the loss of a convoy made it necessary for the colonists to spin cloth from the fibers obtained from nettles and basswood bark, an event that led to sheep-raising, the production of homespun woolens, and eventually to spinning and weaving mills.

We Go Together

THE welfare of Canada never can be a thing apart from the welfare of the United States for we are separated by no Chinese Wall, but we are bound together by innumerable ties. Beyond all sentiment is the fact that the prosperity of the one, acts and reacts upon the other. The industrial development of Canada sketched in the article, though interesting as a record of achievement, is most important as indicative of a future which American capital is helping to build.

Shipbuilding, with wood as the chief material, commenced as early as 1606 and flourished for over two centuries until the world turned to iron and steel vessels. Iron mining and smelting started in 1733. But with the exception of shipbuilding, which was fostered by trade with other countries, the industrial operations just outlined were strictly local, in reality a form of communal enterprise and commerce, and they continued largely as such until about midway through the 19th century, when a spirit of industrial independence began to assert itself, for one reason, because the abrogation by Great Britain and the United States of preferential and reciprocal treaties threatened to shut Canadian products out of these two countries.

This movement toward industrialism gained support in 1867 when the country was bound into one economic unit through the federation of the separate, self-governing sections of the country, which automatically removed the tariff barriers existing between them and opened free commercial channels of national extent. Statistics of manufactures were not compiled at that time, but the gross value of industrial materials and goods probably did not exceed \$200,000,000. There was steady but not startling progress in the next thirty years, the value in 1900 being about \$500,000,000. From that year on the growth of Canadian industry has been accelerated, and at times retarded, by a series of world economic and political happenings.

The Stimulating Factors

THE stimulating factors have been a great sweep of land settlement in the western provinces accompanied by new railway construction, the development of water power, and increasing interest on the part of American manufacturers in the markets of Canada and the British Empire, and, as is now realized, a shifting of industrialism from the Old World to the New, particularly during the Great War, when Europe lost its firm hold on world markets.

This new alignment and the necessity for providing a large part of her own requirements and furnishing war materials caused a very marked expansion in Canada's manufacturing capacity. Incidentally, it may be of interest to note that in the second half of 1917 she supplied 50 per cent of the shrapnel and about 25 per cent of other kinds of shells used by the British armies. By 1920 the gross value of manufactured products was \$3,772,000,000.

Then came the depressing aftermath, and in the next four years no less than 1400 factories and mills were closed to adjust industrial capacity to peacetime requirements. A cycle of prosperity commenced late in 1925, and since then Canada has forged ahead industrially at a remarkable pace, achieving some of the most outstanding records in modern economic history, for now she turns out industrial products with an

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Letters That Are Dangerous

By W. R. MOREHOUSE
Vice-President, Security-First National Bank, Los Angeles

Safer and Better Methods of Introduction Are Needed. Many Forms in Use Are Unfair to the Banks and to Merchants and They May Subject a Bearer to Humiliation. Possibilities of Letters Without Limiting Time or Amount. Specimen Letters

IN the interest of better and safer banking more attention might profitably be paid to the use being made of letters of introduction for, unless a letter of introduction is so worded as to be uncomplimentary to the person it introduces, it is certain to carry with it more weight than just an introduction.

Under no circumstance, should letters of introduction be issued that are addressed "To whom it may concern" or "To any bank or banker." At least, the issuance of this practically unrestricted type of letters ought to be regarded as a breach of banking ethics, for the reason that they permit of too much latitude in their use. Bankers everywhere should raise their voices in protest against the present practice of some banks in issuing such letters. As a rule, such letters are unsatisfactory, not only to those using them, but are resented by many of the bankers to whom they are presented.

Grossly Misleading

NATURALLY the person to whom a bank gives such a letter assumes that it is in proper form and acceptable to any banker to whom he presents it. In this particular, such letters are grossly misleading, for the inference is that they are good at any bank. The truth is, only a very limited number of banks will recognize them. Not until the holder presents his letter a few times will he discover that some banks look with disfavor on his credentials, regardless of how flatteringly they speak of him. He will observe that some bankers show signs of irritation and perhaps indignation, especially when called upon to cash his personal checks. This discovery may be made when it is too late to make other arrangements for greatly needed cash.

A serious objection which many bankers raise against the issuance of introductory letters addressed "To whom it may concern," or "To any bank or banker" is that the letters never are returned to the issuing bank after they have served the purpose for which they were written, nor are they destroyed.

I had such a letter presented to me recently. It was over five years old. The paper on which it was written had begun to turn yellow, and was separating at the folds. The holder is a solicitor, who goes from place to place taking orders for a large manufacturing company, and accepting checks as a small down payment. These checks he undertakes to convert into cash before leaving each town. He said that this letter had helped him to get hundreds of checks cashed, although some of them were made payable to the firm he represented. Doubtless this one "To any bank or banker" letter of introduction had served the purpose for which it was written several years before, and the banker who had written it little dreamed it was still seeing service.

I can not imagine a more dangerous weapon in the hands of an irresponsible person than one of these "To any bank or banker" letters of introduction. In hundreds of instances, it would throw bankers "off their guard" and make them susceptible to an appeal to cash checks.

Used in Stores

THE other day a woman called and presented another letter of the type under discussion. The number of small checks which she asked me to cash instantly aroused my suspicions, and led me to inquire concerning the purpose of her letter of introduction. I also asked if she was finding the letter of much help to her. Apparently my sympathetic attitude disarmed her, for she replied:

"Oh, yes, indeed, I do," adding, "not only in cashing checks, but I find it a great help at the various stores where I want to get credit. All I have to do is to present this letter and I can get credit at most any store. It is a great help to me, and I use it almost every day."

Whether or not this woman had paid all the bills which she had been enabled to incur by presenting the letter, is doubtful. My own conviction is she had not, and yet she had been able to obtain credit in practically every store for no other reason than because she had the letter. This one letter therefore was a real menace to merchants, and unfortunately, a banker is responsible for it.

An Expiration Date Necessary

A SERIOUS mistake some bankers are making is failing to state in their letters of introduction a future date when such letters are no longer in effect. Bankers might get together and reach an understanding that letters of introduction that are over a certain number of months old are not in force. They have an understanding as to when a check is regarded as being "stale," and some such rule might apply with equal effectiveness to letters of introduction.

If for no other reason than the fact that the financial and moral status of individuals are constantly undergoing a change, and as there is no way of determining whether that change will be for better or worse, all letters of commendation should provide in them a fixed date when they cease to function.

Another point of common neglect is in failing to supply a specimen signature of the holder, as a means of identification. Too often, this important identifying mark is omitted, placing the banker to whom the letter is presented in a tight place, for there is nothing about the letter which establishes the identification of the presenter. The absence of a specimen of the holder's signature practically nullifies the purpose for which the letter was written, for there can be no introduction if the person presenting the letter has no way of identifying himself.

The absence of this means of identification will, in a majority of instances, cause banks that would otherwise have extended a favor to turn away the presenters of these letters with the bank's regrets and not with some of its cash.

A Dangerous Practice

THE most inexcusable and, at the same time, the most unbusinesslike practice of all is to issue letters of introduction pledging themselves to honor the holders' checks without stipulating a limit as to the amount. There are far too many people traveling about with just such letters in their pockets. Many of these people are of limited responsibility, and yet they have documents that are unlimited as to the amount which the signing bank engages itself in writing to pay. Probably not one out of a hundred of these letters was issued with that intent, and yet they read "Should Mr. ——— desire to draw on his account with us, his checks will be promptly paid on presentation," or words to that effect. Bankers who are issuing letters of introduction in which the amount they pledge their banks to pay is left optional with the holders thereof, probably have never realized the grave dangers of such a practice.

What does it mean when a bank writes

(*Continued on page* 1155)

To Stop Unfair Competition

By H. L. STANDEVEN
Executive Vice-President, Exchange Trust Company, Tulsa, Oklahoma

Banks and Building and Loan Associations Seen as Occupying Distinct Fields. Neither Should Invade the Territory of the Other. Some Associations Have Over-stepped their Authority to Practice Banking. Practical Cooperation Proved Possible.

ONE of the many interesting developments of present day business methods is that which might be called the "combination method," where two organizations, or more, whose purposes are similar in principle, have begun to work in cooperation for their common end, with consequent benefit to all. Many times these professions or organizations have formerly been distinctly antagonistic toward one another, fighting against each other with a false concept of competition.

This change in thought, which has become more and more evident in recent years, is largely due to the realization of the truth regarding competition, which is accepted today by business men and firms who are most successful. And this truth is that there is no competition in the sense of fighting for the same business from the same persons in an individual manner. There is business for all, and the need of all will be met with corresponding success, according to their application of this factor of developing their business and their contacts upon the principle of giving service and meeting a need.

Upon the understanding of the right concept of competition, the savings bank is meeting a need and rendering a service distinctly applicable to the savings banks; separate and distinct from building and loan associations, and other investment methods. Broader in its scope, it is the institution which seems to afford a higher average of advantages in its effort of endeavor.

Each Has Advantages

THE investor has the selection of four or five different mediums in which to safely place his savings, namely: deposits in savings banks, building and loan shares, insurance, investment securities and other investment offerings. As each of these mediums have certain advantages which as a whole are not applicable to the others, it is not surprising that the public is continually asking, "which is the best investment?", "are building and loan shares better than savings banks?" or "is insurance a safer medium in which to place funds than a savings bank?", and similar questions which seek an arbitrary opinion of the value of one medium over the other.

The answer to these questions seems to me a simple one. Few deny the economic value of life insurance, the place a home occupies in our scheme of living, the field for the building and loan association, or investment securities. Assuming that the laws of the states where they operate require adequate protection, and the institutions themselves have a high concept of their responsibility and mission for service, the question is, "what are the requirements of the individual client?"

If the above named are not his most urgent necessities, then where can he turn? I think to the savings bank. And that must be the basis upon which we analyze this problem.

Met a Popular Need

THE history of savings banks gives the credit for the idea behind them to the French, from the writings of Hugues Delestre as far back as 1610. It has been said that they had their literary beginning in France, their first practical test in Germany, and the first statutory regulations in England. These were only the crude beginnings of the savings bank which was made businesslike by the Rev. Henry Duncan in Scotland in 1810, and from which we date the modern savings bank.

All bankers are more or less familiar with the history of the savings bank in America, and with the problems it has faced in its growth and progress, including the period of the '60's and '70's in New York, when it was organized purely for speculation. The first organization in this country was known as "The Provident Institution for Savings in the Town of Boston," and was chartered December 13, 1816. It is said that this was the first public act of legislation in the world which recognized the beneficent character of savings banks and vested them with the sanction and protection of the law.

It met a popular need, it was a service which benefited the people, and because it was founded on ideals of service and the common good, it has grown and prospered into the great financial bulwark which in the aggregate means so much today to the prosperity of the world.

Are Here to Stay

NOW to analyze the building and loan associations: Like banks these great financial agencies have been the outgrowth of necessity. The original building and loan idea was conceived about a century ago. The first building and loan association was organized at Philadelphia for the dual purpose of creating a safe and profitable investment of funds for its stockholders, and of enabling these same stockholders to build and own their own homes. The last purpose, namely: the building of homes for its own stockholders, was the dominating idea underlying the building and loan association. This fundamental, underlying idea is the foundation stone upon which all building and loan associations have been built and their success in the business world has been built upon the home ownership idea.

These associations have been directly responsible for building millions of homes in America, and millions of families are now enjoying the happiness and contentment that comes to a satisfied home owner by reason of the fact that he was enabled to build his home through the agency of a building and loan association. This wonderful result could not have been accomplished through the channels of activity of a savings department or any other of the present departments of the banks of the country. Therefore, to my mind, the building and loan associations occupy a field in our economic, social and business world that is not filled by any other business agency. Like any other business rendering a fundamental service, these agencies are here to stay, and will continue to grow and render a service to the American people that no other agency has been able to fulfill. I am informed that there are approximately 13,000 mutual building and loan associations in the United States with total assets of approximately $8,002,000,000, represented by the savings of over 11,300,000 people.

Criticism Well Founded

THE bankers of the country can have no objections to the activities of the building and loan associations so long as these associations confine their activities to building and loan affairs and do not usurp the fundamental rights of banking and attempt to make out of themselves a savings or commercial bank without complying with the banking laws of the states in which they are organized.

The criticism directed against build-

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208 SOUTH LA SALLE STREET
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CHICAGO WORLD'S FAIR 1933

To Keep Loans Liquid

By L. K. MEEK

President, Security Bank and Trust Company, Ponca City, Oklahoma

Uniform System of Handling Loans Insures Proper Liquidity. Classification of Credit Extensions by Types According to Security Enables Constant Check to Hold Frozen Paper Down to Minimum. Method Urged Automatically Sets Loaning Limit.

THE note case is the heart of a banking institution. A liquid note case is the basic idea underlying successful bank management. A sound note case means a sound, substantial banking institution, and just as surely, an unsound, unliquid, frozen note case means an unstable and, in some degree, unsafe banking institution.

In every commercial bank there are three classes of earning assets and the term "liquidity" applies in varying degrees to all of these three classes of assets.

First, there is cash and sight exchange, consisting of money in the vaults of the bank and reserve deposits in other banks. These are primary reserves and are 100 per cent liquid.

Second, are those assets classed as secondary reserves, consisting of government, municipal and various classes of industrial bonds. These are not as liquid as primary reserves, but are more liquid than commercial credits because they are more easily and readily marketable.

Third, are those reserves which consist of the credit or note assets of the bank. These are, and have a right to be less liquid than either of the other two classes of reserves. It is the degree of liquidity which should apply to the note assets of a bank and the maintenance of this standard of liquidity with which we are dealing at this time.

Six Classifications

THE note assets in every commercial banking institution may accurately be divided into six classifications. Commercial bank note assets naturally divide themselves into six separate types of credit lines and every note can be definitely placed in one of these six classifications. In order to determine the degree of liquidity which applies to the note case of any bank, it is first necessary to establish and define these six classifications and then take each note—one by one—analyze the facts associated with it and by an accurate application of proper credit standards and credit information, determine the class to which it rightly belongs and place it in that classification.

What are these six classifications? We have outlined a definite, detailed statement of facts and credit conditions which establish each classification. These facts and credit conditions have to do with the borrower himself and with the character and quality of the security he gives to our bank.

Classification No. 1—This includes all notes and credit lines which are collaterally secured, where the collateral is readily marketable and has value unquestionably sufficient to pay the indebtedness the borrower owes at the maturity of his note, if payment should be required.

Classification No. 2—This includes all notes and credit lines supported by financial statements which show that the borrower is in liquid financial condition; that he can pay the debt he owes without liquidating his business, at the maturity of his note or within a reasonable time thereafter, if demand for payment is made. The financial condition of the borrower must be highly liquid and his position of current liquid resources against current liabilities must not be less than two to one. In our bank, we permit the judgment of the officer or the collective judgment of all the loaning officers to determine this condition, without financial statement, on a basis of known information, where the total of the credit line involved is not in excess of $500.

Classification No. 3—This includes notes and credit lines which are secured by chattel mortgages covering properties for sale, or at least easily salable. Only credit lines known to be highly liquid and not capital investment in character, are included in this classification.

Classification No. 4—This includes notes and credit lines secured by first mortgages on real estate where the value of the security is ample for the loan and where the financial ability of the borrower to meet the interest and principal payments required by his contract, is unquestioned.

Classification No. 5—This includes capital investment notes and credit lines considered good and collectible over a period of time but known to be slow, more or less frozen, and not desirable for a commercial bank.

Classification No. 6—This includes notes and credit lines that have become undesirable and questionable—possibly indicating losses—and that need the careful and continuous personal attention of some credit or bank officer. This classification includes those credit lines that should be eliminated from the note assets of the bank at the earliest possible date.

Under classification No. 1 are included those notes which are supported by collateral security, but we limit the character of this collateral security to that which is readily marketable and having value unquestionably sufficient to pay the indebtedness the borrower owes. Any note secured by collateral of this class is unquestionably liquid and probably constitutes the most liquid part of the note assets of any commercial bank. No banking institution ever found itself in trouble as a result of having notes in its assets that were secured by the class of security which is required by this classification.

Under classification No. 2, which includes open credit lines based upon financial statements reflecting the financial condition of the borrower, the requirement of this classification is that the borrower shall be in a liquid financial condition; that he can pay the note he owes at maturity or within reasonable time thereafter without liquidating his business; that his financial condition, as concerns current liquid resources as against current liabilities, must not be less than two to one.

The test of this classification is primarily that of the borrower's ability to pay his debt and still remain in business. The note may be good and surely collectible, but not properly classable as No. 2, because it would require liquidation of resources to an extent that would put the borrower out of business, if he were required to pay his debt. So, from the standpoint of liquidity, the borrower must be able to pay and still maintain the entity and solvency of his business, if his note is to be properly placed in classification No. 2.

In classification No. 3 only credit lines secured by chattel mortgages on properties for sale or easily salable are to be included. Unquestionably, there are notes in banks, secured by chattel mortgages, that are safe and sound, but because the property mortgaged is not easily salable—many times not even for sale—such notes cannot be placed in classification No. 3. Some of the notes which belong in this classification are those secured by chattel mortgages on stock cattle on the farm; on grain in the storage elevator or cotton in the warehouse, and on new automobiles in the warehouse supported by a successful dealer. I would not, however, place in this classification farmer notes secured by chattel mortgages on horses and mules which the farmer must use in handling his crops and operating his farm; or, upon the automobile or truck which an individual or firm uses in its business; or, upon household goods or furniture and fixtures of various classes. In all of these latter cases, values may be sufficient, and the loan safe, but the degree of liquidity is lacking because the condition of cashability is lacking.

In classification No. 4 two requirements are set up; namely, that the value of the property mortgaged must be ample security for the amount of the loan, and that the financial ability of the borrower to meet the interest and principal payments required by his contract is unquestioned. In the strict sense of the word, these real estate first mortgage

loans might not be considered liquid, because maturity periods on real estate mortgages, as a rule, are not short. However, a real estate first mortgage loan meeting the qualifications demanded by this classification is readily cashable through process of sale and transfer and, therefore, because note assets of this kind may be readily converted into cash they should be classed as liquid assets.

Marked in Red Ink

IN our bank, we hold monthly meetings of our discount committee and quarterly meetings of our board of directors. Immediately following the close of quarterly periods on March 31, June 30, September 30, and December 31, each year, the notes of our bank are placed before a special credit classification committee of our board of directors. Financial statements, collateral records, credit files and everything bearing upon these notes are inspected and carefully analyzed by the members of our discount committee and the composite judgment of our officers and directors is determined with reference to each and every note.

Every note in our bank is placed in one of the six classifications determined by collateral records, credit files, financial statements, past experiences, etc., in the bank's possession, and as these may be supported, confirmed or modified by additional information furnished by the members of our discount committee.

The classification given each note is indicated by placing the figure 1, 2, 3, 4, 5, or 6 in red ink in the upper righthand corner of the note. Those notes that clearly and unquestionably meet the standards of classification No. 1 carry the figure "1" in red ink; the same conditions apply to those notes falling in each of the other classifications. If there is a reasonable doubt that a certain note clearly and unquestionably meets the requirements of one of the first four classifications, the bank is given the benefit of this doubt and the note is given a lower classification. This establishes something in the nature of a probationary condition until more definite information is obtained or better and stronger collateral secured, at which time the note may be moved up in its classification if such procedure is justified.

Through the Searchlight

WHEN this quarterly analysis has been completed and every note in our bank has passed through this searchlight of examination, we are then in a position to accurately determine the degree of liquidity that prevails in the note assets of our bank. In a way, we have made a detailed inventory of our note assets under six department heads or classifications. We must now complete our inventory work and get the grand total for each department. So, we proceed at once to get the total of all the notes which constitute classification No. 1, then No. 2 and so on for Nos. 3, 4, 5 and 6.

If our analyses have been made correctly, and if the facts as represented by our credit files, collateral records and information known to directors and officers are accurate and dependable, and if all of these facts have been properly applied to each note, it unquestionably follows that the liquidity of our note assets is determined and indicated by the total of all notes included in classifications No. 1, 2, 3 and 4; classifications No. 5 and 6 are not and cannot be properly classed or included in the liquid assets of any commercial bank.

The total of all notes making up the four classifications, as compared with the total in the remaining two classifications; namely, classifications No. 5 and 6, determine not only the liquidity of the note assets of a bank, but the quality and character of the bank's note case as well. For it is certainly true that no banking institution can be said to be safely and properly managed and directed, and its credit policies established upon a sound, conservative commercial banking basis, if a large portion of the note assets of that bank are of the kind and quality that make up classifications No. 5 and 6, as above defined.

In a well-managed bank having sound credit policies and standards, there will be a well balanced condition as concerns the volume of loans which make up each of the classifications numbered one, two, three and four. It is my belief that classification No. 1 should include the largest volume of loans, but as a matter of actual banking practice, classification No. 2 probably carries the largest volume of loans in the average commercial bank, operating under usual commercial banking conditions. Under usual conditions, the volume of notes making up classifications No. 3 and 4 should be substantially equal.

Verify Quarterly

THIS condition will necessarily vary as deposit conditions vary in different banks. Certainly, no bank should fill its note case entirely with real estate first mortgage loans and the amount of loans in classification No. 4 should be largely determined by the volume of deposits which a bank carries in its savings accounts and time deposit departments. I am sure that 50 per cent to 65 per cent of the average volume of savings accounts and time deposits may be safely and properly invested in real estate first mortgage loans.

After having made these note inventories and established our classifications, which we recheck and verify quarterly, it is our practice, day by day, as notes are paid and new notes are made, to set up debits and credits against the total balances shown in each of the six classifications. By this means we keep what mercantile establishments would call a perpetual inventory which shows at the close of each day's business the total volume of note assets included in each of the six classifications. At the close of the day's business, all new notes are carefully analyzed by the active officers of our bank and given a classification determined by the facts which apply to each particular credit line granted.

I have attempted to detail a system which attempts to unify the thinking, the conclusions and the analyses of our officers in forming judgments and in making decisions to approve or reject applications for credit.

What are the advantages of this system?

First of all, it requires a bank officer to analyze and classify all credit applications by established credit standards before, rather than after, the loan is made. Every officer knows when he makes a loan that it will be reviewed by the credit committee of the bank at the close of the day's business and its proper classification determined. He knows exactly what the bank's credit standards and requirements are, and, therefore, he can intelligently and accurately apply these standards himself.

Tends to Uniformity

THIS method makes the officer careful. It helps him to establish stable methods of thinking and properly apply fundamental credit principles. It tends to establish uniform bank credit acquirements and eliminates that most unsatisfactory condition existing in so many banks, which permits credits to be relatively easy with one bank officer and more difficult with another. It is a continuous checking-up system on every credit-granting officer, which indicates and measures his tendency in credit granting. This helps him to know himself and measure his success and ability.

During the quarterly period, the officers of the bank classify the loans they make each day, but at the close of the quarterly period each and every note passes before the discount committee of the board of directors, where all classifications are checked and verified, and corrected if wrongly made.

As sometimees happens in every bank, the financial condition of a borrower changes. He does not meet the changing conditions of the time. He does not keep pace with progressive movements. Business begins to decrease; his goods become shelf-worn. His current condition becomes weakened. Where once he was a leader in his business, he is now gradually slipping to second place.

The quarterly inventory analysis brings these facts to light, and as a result the loan is reclassified and given a lower classification. The figure "5" in red ink appears in the upper righthand corner of this borrower's note. When the note comes due and is handled by one of the bank officers, immediately the officer is reminded of the lowered classification and the conditions which prevail with the borrower. The little red figure "5" in the upper righthand corner of the borrower's note becomes a danger signal, reminding the officer that the credit line should be put in proper condition, either by strengthening the security back of the note or by improving the credit line by adequate principal payments. By this method, danger signals are always in proper place where and when they are needed.

Experience will prove that the ma-

(*Continued on page* 1158)


THE NATIONAL MANUFACTURERS BANK
79-473
ANY CITY May 5th. 1929 No. 1099
PAY TO THE ORDER OF National Manufacturers Bank $ Goodwill
Impresses Customers with a Sense of Security DOLLARS
Gilbert Safety Bond

Campaigning for Savings Accounts

By ALLAN B. COOK
Vice-President, Guardian Trust Company, Cleveland

Savings Banks Can Conduct New Business Contests Profitably. Best Results Obtained by Efforts of Officers and Employees Who Are Involved in Relations with Public. Campaigns Using Hurrah Methods Found Least Productive of Valuable Accounts.

Adapting an Idea

SAVINGS banks have been slow to adopt the plan of a contest between employees for new accounts as a means of increasing business although this method is now an old story among commercial institutions. This article demonstrates how the idea can be applied to savings banking beneficially while at the same time "debunking" some of the best known features of this class of activity. The facts presented are the results of actual experience.

NOT so many years ago savings banks and mausoleums seemed alike to the average citizen. When he deposited his money he felt that here was a fitting place in which to bury it. Within those cold stone walls peace and quiet ruled. The attendants—men of solemn mien—trod softly and conversed in grave tones only. Gone were the quickening impulses and the hustle and bustle of the outside world once he crossed the threshold to bid a fond farewell to his hard-earned funds.

Making a withdrawal was even worse. "Have you considered fully the seriousness of this act?" and like questions were accompanied by glances which insinuated that he was little better than a ghoul desecrating some fond relative's final resting place.

Then dawned a new era. The automobile replaced the bicycle. Euchre gave way to bridge. The waltz fell before the shimmy. And finally modern salesmanship found a home in the bank.

Salesmanship—the ability to make the other man burn with desire to purchase what you have to offer—such is the potent force governing industrial and financial activity today. Properly guided and stimulated salesmanship produces astonishing results. When poorly handled this energy dribbles away.

Humor Injected

BANK sales effort takes many forms, but none is more popular nowadays than the contest for new business in which directors, officers and employees join in an attempt to swell deposit totals. As a general rule such campaigns last from one to three months, although some banks extend the time to cover varying periods not to exceed a year in all. Usually employees are paid cash bonuses for new accounts obtained during the contest. In other cases merchandise prizes, extended vacations or salary promotions may be offered as the reward for work well done. Employee interest and activity is, however, stimulated by more than mere kind words.

No contest is complete without its quota. This may be set at 3,000, 5,000 or some other number of new accounts, or expressed in terms of money as an increase in deposits of $100,000 or $1,000,000 or whatever the desired figure happens to be.

Some banks visualize the campaign for the participants by setting it up in the form of a big game hunt, a golf game, a fishing expedition, or what not, and through the injection of humor, a competitive spirit and sales pressure arouse the energies of everyone from president to janitor.

Crowd Wears Paper Hats

CONSIDER for a moment the methods used by many institutions to produce vim and the old "up-and-at-'em" spirit among the boys and girls. First of all mass meetings are held frequently at which reports are read regarding progress of the drive. Jolly parties these, with songs like "Bowser's the Boy Who Gets Accounts" sung to the tune of the "Old Oaken Bucket" and a few words by Joe Paluch, the night-watchman describing his success in getting twenty one-dollar accounts from the members of his pinochle club.

These occasions are augmented by dinners at which the crowd wears paper hats, throws confetti, and listens to "pep talks" by several officers. Then, too, badges of various kinds make their appearance. These designate the wearers as Wows, Bearcats, or something of lesser degree. Envy, pride or other emotion is supposed to stir all backsliders to renewed activity, that they, too, may become Wows or Bearcats rather than remain as lowly Polecats.

The value of this hip, hip, hurrah is doubtful, and it is also a mistake to concentrate the staff's attention upon quantity rather than the quality of business produced in the light of the experience of our bank. Our bank is a pioneer in the field of employees' contests, having had such campaigns for more than twenty years. During the past two decades it has tried many variations of these drives so that a summary of its efforts will aptly illustrate the advantages and the pitfalls of this sales method.

All campaigns up to and including that of 1927 were dramatized in an interesting fashion. The bank created its own vehicle by using a little ingenuity and has been able to retain the element of originality year by year. For example, in 1924 the contest took the form of a transcontinental motor bus race from Cleveland to Los Angeles and back again. In 1925 there was a yacht race on the Great Lakes, while in 1926 the American and National Leagues had four weeks and a half of their baseball seasons climaxed by a world series of three days for the winning teams in each league. Then 1927 saw a movie popularity contest between a group of feature films.

Divided Into Teams

SO much for the stage settings chosen. Consider now the manner in which the staff was organized for its work. More than 600 officers and employees were divided into teams, to which the directors also were assigned. Each team's membership numbered approximately twenty-five under the leadership of a captain chosen for his fitness, as demonstrated in preceding years. Then each team was placed in charge of a motor bus, or a yacht bearing some designated number, or given the name of some famous baseball team or feature film. Bus 17, Yacht 30, The Giants and The Black Pirate will illustrate the method used.

A quota of $2,000,000 to $3,000,000 in new accounts was the goal set for each contest of five weeks in length.

All classes of business were included—savings accounts, checking accounts, trusts and wills, bond sales, safe deposit boxes, and travel bureau transactions. The initial deposit of savings and checking accounts was the basis for their value, while rules were established to determine the dollar equivalent of all other kinds of business.

In 1924 each unit secured by a team member pushed his bus ahead by thirty miles regardless of its size. All told, 214 accounts were needed to take a bus to Los Angeles and back to Cleveland, an average of less than ten accounts for each individual. In 1925, however, distance covered by a yacht was computed by the dollar value of the business produced daily by its crew.

The baseball games of 1926 injected the element of competition between teams into the drive. Day by day each team played another, the winners of the games being those with the greatest dollar volume. The team standings in both leagues were kept in the same manner as those you read each summer in the daily papers. For the "movie" contest dollar volume was the sole determining factor for leadership in 1927.

Daily Bulletins Issued

ACTUAL dramatization was accomplished in this manner. In 1924 and 1925 a large map was suspended in the lobby of the bank, and nightly each bus or yacht was moved ahead the proper distance toward its goal. In addition, daily bulletins were distributed to all contestants, commenting both by caricature and text in a humorous vein upon the events of the day before. Mass meetings were held frequently at the main office and at the various branches at which sales pressure was exerted in the good old-fashioned way described before. Both drives were launched at dinners to the staff, and both concluded with banquets to celebrate the results obtained.

In 1926 the same general plan was followed, with a scoreboard substituted for the maps of the two preceding years. There was a change of operation in 1927, however, for half-hour mass meetings were limited to one a week. Reports were read, some sound sales suggestions set forth quietly, and the balance of the time devoted to entertainment in the form of the screening of some short current film and a bit of action in which star producers were featured. Bulletins went forth every other day, and posters and pictures of scenes in "The Black Pirate," "Beau Geste" and others whose names the teams bore were on display in different parts of the bank. These exhibits were changed with sufficient frequency to sustain employee interest by their very freshness.

A most important factor in employees' contests is the scale of cash bonuses established and the manner in which payments are made. Then, too, there is the matter of special prizes to consider whether they take the form of cash, merchandise, or something else. The way in which a bank handles these phases of the situation determines not only the expense of a drive in dollars and cents, but also the quality and volume of the new accounts secured by the staff.

The Scale of Bonuses

THE rules governing the new business contest in 1924 were typical of those of former years. For example, bonuses payable ninety days after the last day of the drive were established on the following scale for savings business.

Accounts of	$5		$0.50 each
Accounts above	5 and less than	$10	0.75 each
Accounts above	10 and less than	25	1.00 each
Accounts above	25 and less than	100	1.50 each
Accounts above	100 and less than	250	2.00 each
Accounts above	250 and less than	500	3.00 each
Accounts above	500 and less than	750	5.00 each
Accounts above	750 and less than	1,000	7.00 each
Accounts above	1,000 and less than	2,500	8.00 each
Accounts above	2,500		10.00 each

A similar schedule was worked out for checking accounts, and a scale of values was arranged for other kinds of business.

Then, too, special prizes were awarded to the ten employees producing the greatest number of new accounts, and to the ten men and women who led in the dollar volume of new business. Both classes received first prizes of $50; second prizes were $35, third $25, fourth $20, fifth $15, sixth $10, and seventh to tenth, inclusive, $5 each. As a further incentive, each week the best producer on each team was given a prize of $2.50 for his work, with the stipulation that nobody could win more than one of such weekly prizes. Under this schedule of awards it was possible for some employee to obtain cash prizes promptly at the conclusion of the campaign totaling $102.50, without regard to the regular bonuses payable to him. Naturally directors and officers were not eligible for prizes or bonuses, theirs being but a work of love.

Expenses Were Cut

WITHIN the five weeks of the 1924 contest the bank received 8728 new accounts of all descriptions for a total sum of $5,540,236. Marvelous! But is it in the light of the analysis made by the bank some six months later? Remember that each account had to remain upon the bank's books for only ninety days to earn a bonus for employees, and it is natural, therefore, that mortality did not commence during that period. During the following three months, however, 2173 accounts were closed.

Furthermore, investigation revealed that the employees obtained 465 accounts of less than $5, 3465 accounts of $5 each, and 2131 accounts ranging from $5 to $50, the latter figure being approximately that at which a savings account becomes a source of profit to the bank. Here we have 6061 unprofitable accounts out of a total of 8728 pieces of business, and these very accounts cost the bank $3,863 in bonuses. The total expense of the campaign was approximately $9,600, which investment in sales effort resulted in 2247 savings and checking accounts with balances of $2,936,347, and 420 other units of value.

To correct the disparity in quantity between unprofitable and profitable business, the bonus scale for 1925 was overhauled, as shown by the schedule used in that year's campaign. For each savings account the bank paid the employees at the following rates:

$50 to $100	$1.00
101 to 250	1.50
251 to 500	2.50
501 to 750	5.00
751 to 1,000	7.50
1,001 to 2,500	10.00
2,501 and more	15.00

It is apparent, therefore, that the bank's expense had been cut materially on accounts below $500, and that the reward for accounts above $750 had been substantially increased. Thus was the emphasis placed on the quality of the business desired. An even more striking illustration of the difference in the bonus schedules is the payment in 1924 of $5 for ten accounts of $5 each, as compared with a bonus of $1 in 1925, when ten accounts of $5, five accounts of $10, etc., were considered as the equivalent of a $50 account.

Similarly the special awards were arranged so that the three individuals obtaining the largest dollar volume of new business would receive $100, $50 and $25 respectively, while the producers of the greatest number of accounts were paid but $50, $25 and $10. Equally important was the restriction of bonus payments to those accounts remaining on the books for six months after the contest, average balances being the basis for calculation in each case. Thus the item of expense was reduced more than $5,000 without impairing the dollar volume which held up to the level of 1924 with a decrease in number of accounts of 4873. Less expense, less operating detail, fewer accounts spelled greater profit.

Formed a Contact Club

FOR 1926 the same bonus and prize rules governed the contest, and 3585 units of new business, totaling $6,535,423, were secured at a cash outlay of only $2,800. In 1927 the only change made in the plan was the substitution of merchandise prizes for those formerly given in cash. A completely equipped Ford sedan was offered to the man or woman who led the staff in dollar volume. Second prize was a Frigidaire refrigerator with a complete electric cooling unit. The winner of third place had the choice of a Vacuette or a Royal Vacuum Cleaner, while for the greatest number of accounts the remaining cleaner was the sole award. These prizes were displayed throughout the drive in the bank's lobby, thus arousing public interest as well as creating an incentive for the staff to do its best. This worked splendidly, for 5154 accounts, totaling $6,464,000, were obtained in addition to bond sales, trust business and other items worth several millions more—and the expense involved was less than it had ever been before.

The analyses of four campaigns described indicated clearly another important point. Better than 90 per cent of

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Salary Loan Movement Spreads

By H. H. REINHARD
Vice-President, National Bank of Commerce, St. Louis

Industrial Loans Are Beginning to Find Favor With the Banks. Reports Show Small Loan Business Seems Profitable While the Rate of Losses Reported is Low. Various Plans Are Now in Use. Banks Believed Better Equipped for This Field Than Others.

SINCE man appeared on the face of the earth and began to associate with fellow beings, small loan plans have been in constant practice. Even in the barbaric stages when barter served instead of money, friends and neighbors borrowed from one another and repaid in kind, often adding another article, which in effect was the interest payment. The American savage who knew nothing of savings accounts and compound interest, frequently obtained a small loan in wampum from a warrior friend and not only repaid it, but threw in an arrow or two, or a few beads, for good measure.

And as time has progressed, in every nation or tribe, a few of the most thriftily inclined have developed a business of lending to many of their less fortunate brothers. Thus, acting in the role of ultra-modern bankers, they set themselves up in the small loan business.

It is easy to see, however, as civilization has advanced and multitudes of increased activities have come into existence, bankers have been attracted to fields where large capital has been needed for development of agriculture, commerce and industry.

In the nineteenth and twentieth centuries such phenomenal strides have been made in industry in all nations that it is no wonder bankers have exerted themselves to accommodate the large types of business and left the small borrower to find the best way out of his dilemma.

Avenues to Earnings

STATISTICAL studies of the new trend of banks toward small loans would indicate that they are not only filling a want but are opening up new avenues to earnings which may in some measure offset the marked decline which has taken place in commercial credit accommodations. While the movement is still in its infancy, the figures presented here are of sufficient breadth to supply as basis for determining the margin of risk and the probable returns to be expected.

Small Loans Logical

BUT luckily a better day is dawning for this little borrower. The general banker, having organized a multitude of service departments and supplied everything that he could think of, has discovered here another opportunity to do a good deed, and profit by it. It is well that this discovery has been made, for modern banking needs to employ every resource at its command in these days of high competition. To borrow a slang phrase of the day, it must not "overlook any bets."

Success in banking depends upon loans. Bank profits come from lending money and getting it back with interest. The function of lending money naturally follows that of deposits, the two being dependent upon one another. A bank that is in the business of lending to the large borrowers should also pay attention to the small borrower, for there is some moral as well as financial obligation resting on the banker in this respect. Many of the most valuable customers of the banks today were developed from the small customer of former years.

In too many cases the little fellow has been forced to obtain his loans from the unscrupulous "loan sharks." Once in their clutches he is as helpless as an animal in a treadmill and his task of repayment becomes as endless as that of Sisyphus, the once proud King of Corinth, who, according to mythology, had incurred the anger of the gods and was punished in Hades by having to roll a huge stone to the top of a hill, which he no sooner had done, by means of his utmost exertion, than it rolled down again.

Interest Widespread

IN its broad aspect, the function of a bank is to help the people of the community solve their financial problems. The bank, looked upon as a community leader, is expected to promote those things which will help make the community a better place in which to live.

Banks generally have not been encouraging small loans commonly termed "Industrial Loans." It is only within recent months, when a few of the larger banks have announced an entry into the "Industrial Loan" field, that interest has become widespread in this phase of banking.

In its quest for information about small loans, the Savings Committee of the American Bankers Association Savings Bank Division sent out 600 questionnaires and received replies from 251 institutions. Of the 251, only fifty-six, or slightly more than 22 per cent, reported they have departments and are organized specially to handle this sort of business. A total of 147 banks replied they do not cater to small borrowers and forty-eight said they sometimes deal in such loans.

Repayment Plan Varies

SOME banks attempt to set no minimum or maximum for the borrower, while in others the smallest amount ranges from \$5 to \$100. The maximum in these cases goes from \$100 to \$10,000, depending, of course, upon the character and ability of the customer to repay, or upon the collateral he offers.

The rate of interest that prevails in most states is 5 per cent, although in some states the rate is 8 per cent and 10 per cent. In addition to interest, the borrower pays a service fee, sometimes figured at a flat rate of from 25 cents to \$2 per \$100, or on a percentage basis ranging from ½ per cent to 6 per cent.

The plan of repayment varies, but most loans are returned in equal amounts on a weekly or monthly basis, usually payments being arranged to suit the convenience of the borrower. Sometimes permission is granted for repayment in a lump sum at the end of a specified period.

The granting of small loans should not unduly encourage buying that is beyond the means of the individual, because borrowers naturally will shrink from going through so much so-called "red tape" unless they are being pressed to meet obligations.

Although the patron is entitled to a quick disposition of his application,

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Restrictions on Savings Deposits

By THOMAS W. MURRAY
Executive Vice-President, Union Savings Bank of Boston

Savings Banks Differ on Restrictions on Deposits Question. Some Impose Various Conditions While Others Stand Ready to Receive All Accounts Offered. Justification of Restriction Policy Challenged as Avoiding First Duty of Savings Banks.

Depositors or Public

THE question raised here is whether a bank is justified in imposing restrictions on savings deposits in order to maintain its dividend rate. So far as mutual savings institutions are concerned there is a principle at stake as to whom the bank owes the chief obligation, to its depositors or to the public. Coupled with the matter of principle there is the practical proposition of competition and what will become of the business that a bank turns down.

WHETHER a commercial bank is justified in refusing to accept savings deposits in order to maintain a dividend rate is a question that may be answered only one way. It is justified.

A commercial bank is operated for profit. Commercial banks, (national banks and trust companies) have capital stock. As a bank progresses, increases in size and activities, more capital must be raised by the sale of additional stock. In addition to the investment of their money, the stockholders are also liable for a maximum assessment of an amount equal to their investment in the event there is an impairment of capital resulting from losses in the conduct of the business.

There is no question, therefore, as to where ownership, carrying authority and responsibility, is lodged in a commercial bank. It is lodged in the stockholders who own the bank with a primary obligation to meet the deposit liability when called upon to do so. It is their proper function to operate the bank for their profit within the law. The depositors have no claim of any kind to the earnings nor to any excess of assets over what may be necessary to meet deposit liabilities. Both of these belong absolutely to the stockholders and they, operating through the directors and officers, are entirely justified in imposing restrictions of any kind on deposits once they have made up their mind that is what they desire to do and that it is the action which they deem necessary and desirable in order to maintain a definite rate of dividend.

While legally justified in such restrictions, whether it is good business and sound judgment is another question. Competition will answer that. A commercial banker who refuses savings deposits in order to maintain a rate of dividend to his old depositors should not be surprised if he eventually finds he has no use for his "new accounts" window.

Profit Secondary to Safety

THE question of restrictions on savings deposits is probably of greater interest to savings banks than to any other group and especially to the 600 mutual savings banks in the United States, 553 of which are located in the New England states and the states of New York and New Jersey.

The restriction of deposits, either as to amount or the territory from which they may be received or both, is a regulation put into effect by a large number of mutual savings banks in Massachusetts at times when they feel that their dividend rate may have to be reduced, if deposits of the limit allowed by law were accepted without hesitation or qualification.

There are many viewpoints as regards restrictions based upon various interpretations of what the functions and duties are of a mutual savings bank. Some will say that a mutual savings bank is not a bank, but as it is so termed in, and held accountable as such by law, it does not seem important that this phase of the question be discussed. Definitions of a mutual savings bank may vary on some points, but all are agreed that fundamentally the purpose of a savings bank is to invest sums of money for depositors in investments prescribed by the laws of the state in which the bank is located, paying over to the depositors all the profits earned and received after expenses, taxes, et cetera are paid and proper reserves are made for depositors' protection, there being no stockholders to share in the earnings. Mutual savings banks are essentially of a trustee nature, the matter of profit being secondary to the safety of investments. They are not charitable institutions and many object to their being called benevolent. It would seem as though "investment banks" might be a fair description.

Restrictions Differ

THE mutual savings banks of the East date back over 100 years. Their growth has been extraordinary. The combined savings deposits of the mutual savings banks in the two states of New York and Massachusetts total about $6,500,000,000—the total of Massachusetts alone is now $2,000,000,000. Of this amount $1,000,000,000 has been accumulated since 1916. In that year the going rate of dividend paid by Massachusetts savings banks was 4½ per cent, only one bank paying 5 per cent. Since that year the number of banks paying a 5 per cent dividend has steadily increased, with slight fluctuations, until today there are seventy-two banks out of 196 in Massachusetts paying 5 per cent. In Connecticut there are twenty-three banks paying that rate.

Naturally, this rate attracts increased deposits. In Massachusetts it causes bankers, who are anxious to maintain it, considerable thought, with the result that in a large number of instances restrictions of various kinds are imposed on deposits, while others impose no restrictions whatsoever. Some of the restricting banks will accept money from any depositor, but only for limited amounts, not being willing to accept the totals allowed by law. Others not only restrict the amounts, but also the territory, that is, they will not accept accounts from people living in a territory which they consider to be outside that section or community which they feel it is the bank's function to serve. Others will accept the maximum allowed by law, but only from such depositors as live within a certain specified territory and so on.

In response to an inquiry sent out by the secretary of the Massachusetts association in connection with this question, letters have been received from seventy-two mutual savings banks in Massachusetts having total deposits of approx-

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Statements Set New Standards

By C. W. BOYDEN
Vice-President, Farmers State Bank, Sheffield, Illinois

Financial Statement Valuable to Borrower as Well as Lender. Accurate Knowledge of Their Indebtedness Frequently Causes People to Work Hard and Pay Up. Country Banks Can no Longer Rely Upon Personal Contact with Customers in Making Loans.

IT is almost inconceivable that any bank should attempt to conduct its business and make loans to its customers without the definite and specific information to be gained by some form or type of a credit file. Those who are connected with the larger banking institutions have so long been accustomed to rely upon the use of credit information, that they perhaps take it for granted that the practice of requiring borrowers to furnish statements is universal.

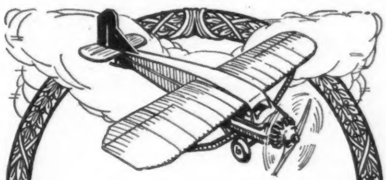
Unfortunately, among small banks the practice is not yet general.

My experience with the subject is entirely from the angle of the small town banker; country banker is perhaps the better term. For thirty-six years I have been connected with a country bank. In that time, conditions, both social and economic, have changed quite as much in the small town where I have lived as in the great metropolitan centers. I can no more hope to succeed or dare to face my responsibilities by adhering to the methods of a quarter of a century ago than can the banker in Chicago or New York. If he has found accurate credit information necessary for the successful loaning of the bank's funds, I must adopt the same practice if I am to form intelligent judgments and make correct decisions upon loan applications. I may know my borrower more intimately than does the city banker. I may even know his antecedents, something of his character and his habits, and have a general idea of the property he owns and of its value. However, as I shall point out later, I cannot know how much he owes.

Knew All About Them

FOR the first fifteen years of my banking experience, my brother and I were the entire working force of the bank. We were everything from janitor to co-chairmen of the board. Naturally, our relations with our customers were most intimate and personal. We knew all about them, their financial, moral and even spiritual worth; and as denominational lines were pretty closely drawn in those days, if they belonged to the same church that we did they were a little better moral risk than if they belonged to another church.

Nor was credit extended so generously in those days. A man who wanted a few hundred dollars expected to give a mortgage or assignment. So when Bill Smith came in to borrow a modest sum, we knew from our own personal knowledge whether or not he was good for it and whom he would offer for security. We knew what his capital assets consisted of, what his earning ability was, and, most important of all, how much he owed.



Guide and Check

THE old order changeth in banking as in everything else and the day has passed when the banker's intimate acquaintanceship with his neighbors was all that he needed as the basis for his loaning policies. Under modern conditions, without the aid of a financial statement, banks not only cannot know what their customers owe but the customers themselves are often astonished when their debts are totaled.

Today that is no longer true. We may still have a general knowledge of the nature and the value of his property, but as to his debts we can have but little idea. From my own experience of these more recent years, I have found it safe to assume that the average borrower with whom I have to deal owes just about as much outside the bank as he does to the bank.

Feeling of Loyalty Gone

THE use of credit has been so enlarged that it is now possible to satisfy almost every human desire by a dollar down and a dollar-a-week plan of payment, and the conditional sale note has obviated the necessity of giving a chattel mortgage, so that an examination of the usual county records fails to disclose any given man's indebtedness. How then shall we arrive at the borrower's true financial condition unless we can have from him a statement in which he lists, not only his assets, but his liabilities?

The old-time intimate relationship between the banker and his customer becomes increasingly difficult to maintain because of certain general tendencies. There is no longer the disposition there used to be for a man to confine his banking business to institutions. In the field of big business the corporation unit has often become so large, and the credit demands in such proportion, that the facilities of several banking institutions are required to meet the legitimate needs. But in the country where the local bank still has a sufficient loaning limit to care for ordinary needs of the merchant or the farmer, it is nevertheless true that there is no longer the feeling of loyalty to, or the dependence upon, any one bank or banker.

The multiplicity of banks and the resultant increased competition has contributed its share by attracting the customer into new banking connections. Another potent force has been the automobile and improved roads which have eliminated distances and made accessible any one of half a dozen towns where the farmer may and does go with almost equal ease and with but slight difference of time.

Has a Good Alibi

THESE are but some of the reasons why the small town banker, even though his contacts with his customers are still fairly close, needs to require statements from his borrowers quite as much as does the banker of the larger cities, whose relationships with his customers are of necessity more cautious and impersonal.

But there still remains another reason which may not be so evident upon first thought, or so immediate and direct in its tangible results. It is that increased sense of security which comes to the banker from the knowledge that his loans have been made upon the best information available, and the satisfaction that he has based his judgments and made his decisions upon facts rather than upon a hunch. With the facts dis-

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Loans to Merchants

By BEN JOHNSON
President, Commercial National Bank, Shreveport, Louisiana

Character, Capacity and Capital Still Backbone of Credits. But Merchant Must Be Above Average to Succeed Now. Bankers Should Be Familiar with Changing Conditions in Business to Loan Intelligently. Statement Analysis Becomes Essential.

EVERY business man, regardless of the nature of his business, is in a sense a merchant, and the measure of his success is the measure of his ability to "merchandise," whether he has service or goods to sell, but for the purpose of this discussion, I am thinking of a merchant as one who buys and sells merchandise either wholesale or retail.

Merchandising is a popular occupation in America, a business that is followed by a very large number of people. One commercial credit agency reports 2,199,000 commercial firms in 1928. At the same time they report that 1.08 per cent of these firms failed in 1928, the larger percentage of which were among trading merchants as distinguished from manufacturers. There were 16,477 of such failures in 1928.

The great number of mortalities among the merchants and the apparent increasing number of them during the last five years makes the question of "loans to merchants" of vital importance to the commercial bankers of the country at this time.

During the five-year period, 1924 to 1928, there were a lot of commercial failures in this country, merchant failures. In 1928 the percentage of failures was higher than in any year in thirty years, except years like 1908, 1915, 1921 and 1922; years following definite panics or definite periods of depression.

Few Failures of Chains

THE highest percentage of mortalities was in the grocery stores, the clothing stores, dry goods stores and drug stores. In 1924 there were 3067 grocery stores that failed. In 1928 that figure was increased to 3785. Clothing merchants that failed in 1924 numbered 2072, which was increased to 2324 in 1928, and so on with the drug stores and the dry goods stores.

Now during that same five-year period the chain units increased from 56,862 in 1924 to 101,536 in 1928, and it is an interesting fact that the increase in the percentage of failures in these four lines which have been mentioned is in direct ratio to the increase in the percentage of competing chains.

In this same five-year period chain stores have increased about 46 per cent in number; I mean the original chains, not the units. The units have increased over 100 per cent. There have been very few failures of the chains. Some of them have made very notable successes.

Gone and Unsung

BUT the chain store competition is not the only problem which the unit merchant has to reckon with. It would be reasonably accurate to say that there have been more basic changes in merchandising methods and in the buying habits of the public during the past five years than in any previous twenty-five year period of our country's history.

The village blacksmith is gone and entirely unsung now. His opportunities have gone, and likewise the easy opportunities for the old-fashioned country store and general merchandise emporium and the easy opportunities for profitable trade in the small centers are gone. With improved roads, improved transportation and delivery methods, the small store and the small trade center find each day a widening world of competition.

The same changes have been going on in the wholesale business, one of which only needs to be noted. It appears that the opportunities for the old line wholesale dealer in the larger centers is to a large extent gone. We find small wholesale units giving back-door delivery in all the smaller centers. The wholesalers today are changing just as vastly and rapidly as the retailers. There has been very rapid process of evolution going on in the merchandising business. There may be some differing ideas about evolution that have caused so much controversy all over the country, but the evolution that is taking place from day to day and week to week right under the eye in buying habits of the people and merchandising efforts of the folks that are getting across in the merchandising game is what I am referring to. There is no doubt about that. Now the question is, are bankers taking cognizance of that fact and changing their methods and evolving new and more up-to-date methods in extending credit to these units to keep apace with the change in the business?

There are certain external factors relating to the problem over which neither the banker nor the borrower has any control, but which need to be measured and considered at the time the credit is extended.

What are the local conditions affecting this particular line? What are the general conditions affecting it? What is the trend of the trade? Do folks now want radios with batteries or the ones they can hook onto the town current? What is the competition in this particular line?

Then after the banker has satisfied himself on all those external factors there is another external factor so far as this particular loan is concerned that needs to be reckoned with, and that is how much in local loans does the bank already have? How does this new credit that is being taken on relate itself to the bank's total loan structure?

The internal factors of character, capacity and capital still remain the backbone of all credits, and particularly do the banks need to be sure that merchants now have a fair share of all three of the primary C's in extending credit to them.

I believe that, having satisfied myself about the character of the man, and then measuring his capacity, I would not loan to a merchant today unless I believed he were above the average capacity, if I know what that is, because now there is no opportunity and little chance for the man of limited capacity in the merchandising field.

Banks need to have statements. They ought to have audited statements. I do not know how far they can go in insisting on audited statements. I do not know where to draw the line. I would feel a lot better if all the credits in my bank, say, $5,000 or $10,000, were supported by auditors' statements.

Fine Ties of Friendship

THEN comes the question of the statement analysis and the study of it. I am talking about a statement, not a balance sheet. I remember when I used to open a balance and say, "Two and one-half for one. This is eligible for rediscount—O. K." But a bank cannot do that with the merchant now. The banker not only needs a balance statement but a statement with operating ratios and should be able to sit down and figure out the record and the trend of business. Where is he heading? Where has he gone? What progress is he making? By experience I find I need to go into certain factors in his statement.

Look at the merchandise account, for instance. What is the amount of the merchandise in relation to his total annual turnover? Merchants do not need to stock up like they used to. Rapid

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Decision Against Guaranty Law

Nebraska Court Holds Guaranty of Deposits Law Fails of Its Purpose. Judge in Sweeping Opinion Sets Constitutionality of Public Need for Banks Above Considerations of Guaranty Fund Bringing New Legal Logic to Long Controverted Subject.

NEBRASKA bankers have won the first round of their fight against the Guaranty Fund Law and have succeeded in bringing into the history of this stormy question of guaranteed deposits a clear-cut court decision directed to the fundamentals of the law.

Higher courts may review the proceedings which resulted in a decision by Judge Lincoln Frost of the District Court of Lancaster County to issue an injunction against the collection of a special assessment of three-tenths of 1 per cent of the average daily deposits of the state banks of Nebraska. But the principles laid down by the district court have crystallized a case which has attracted the attention of every banking community in the country.

Suit was brought by the Abie State Bank of Abie, and 558 other state banks of Nebraska to enjoin the collection of the special assessment levied Dec. 15, 1928, and other future special assessments. The chief grounds upon which the right to an injunction was claimed were that the special assessments are unjust, illegal and confiscatory and exceed 8 per cent of the entire capital stock of the state banks of Nebraska; that based upon the present status of the Depositors Guaranty Fund and the experience of state banking in Nebraska for the past eight years such special assessments, if required to be paid for a few years, would deplete or wipe out the entire capital stock of the state banks.

Confiscating Levies

SPECIFICALLY, the district court held that the banks should be allowed to plead the confiscatory results of the continuation of the special assessments to the Guaranty Fund and hence, their unconstitutionality as of today. In general, however, the court expressed itself upon the whole theory of the guaranty of bank deposits in language that bids fair to be the beginning of a new line of decisions upon this subject and to have a marked influence upon the discussion of such measures in other localities.

At the outset Judge Frost, in his opinion, took the position that in order that assessments levied shall be declared confiscatory it is not necessary to show the banks in the red; it is sufficient that they do not show results commensurate with capital invested. Continuing he said:

"The defendants contend that even though the evidence should show that the banks as a whole are not receiving returns which are compensatory, still there has been no showing that individual banks cannot survive or make a reasonable return on their investment. It is true that the evidence in the case deals largely with generalizations based upon a study of all the banks. Perhaps the most favorable illustration for the defense would be the question of inefficient management. Before the Court could conclude as to the cause of the failure of an individual bank it would be quite important to know the character of its management. However, taking banks as a whole, general information on the subject of banking would seem to be sufficient. It would seem, too, that the Guaranty Fund Law depends for its success upon all banks doing their part under the terms of that law. If any appreciable number of banks are unable to do their part because of unavoidable burdens, then the system as a whole must fail. The evidence introduced in this case quite clearly demonstrates that fully two-thirds of the banks under the existing financial conditions are unable, after paying assessments amounting to 8 per cent on their capital, to pay compensatory dividends. The Guaranty Fund Law cannot continue to function except upon the basis of all going state banks meeting its demands. It is based upon mutuality, the cooperation of all. Such banks as cannot respond to those demands must fall by the wayside. How far can this process of elimination be carried without violating the constitutional guaranties against taking private property for private use without compensation?"

Police Power Far Reaching

THE most far-reaching aspect of the decision however, is the contention of Judge Frost that the banks can not waive the constitutionality of the Guaranty Fund Law, even though they may have appeared to have accepted it. He held that the public interest in the preservation of its banking system was of greater constitutional importance than the Guaranty Fund Law.

Analyzing the leading case on the question of guaranty of deposits, that of the Noble State Bank of Oklahoma against Haskell, Judge Frost said:

"Justice Holmes in his decision upon the Guaranty Fund Law based its constitutionality upon its being a proper exercise of the police powers of the state; or, in other words, that the general needs of commerce would be conserved by such a statute. He brushed aside the question of charter rights as not in any way strengthening the position of the banks. This was in the Oklahoma case where there is a reservation allowing the legislature to change or alter charter provisions. Possibly that might make some difference as Nebraska's constitution has no such reservation. However, the police power seems to be quite as far-reaching and both depend upon being within the public needs of the state. He argues that the advantage of the Guaranty Fund Law is to make cash immediately available to pay depositors through that fund and further, that its 'purpose is to make the currency of checks secure and by the same stroke, to make safe the almost compulsory resort of depositors to banks as the only available means for keeping money on hand.' I have referred to Justice Holmes' opinion upon this point so that I might call attention to the fact that the present condition of the Guaranty Fund is not in accord with his expectations.

"I also have another thought in mind: As that fund is no longer meeting the needs of the depositing public as anticipated by Justice Holmes, is the constitutional guaranty forbidding the taking of private property without compensation being violated by continuing the law in force?

"Now the only possible purpose in levying special assessments under the Guaranty Fund Law is to pay depositors in failed banks whose claims have already been adjudicated. Present day depositors cannot possibly receive any benefit therefrom. Such a situation was not in the mind of Justice Holmes when he wrote the opinion sustaining the constitutionality of the Law. He justified an 'insignificant taking' on the ground that the banks, by contributing to the Depositors Guaranty Fund, would create a condition that would make the currency of checks secure, would make safe the resort of depositors to state banks and would make failures almost impossible. Of course, he could not then foresee the great war or the accompanying inflation which followed, or the reaction that followed the later curtailment of credits. The Guaranty Fund Law as conceived by Justice Holmes is no longer serving its purpose.

"Does not the same public need which was appealed to sustain the constitutionality of the Bank Guaranty Law

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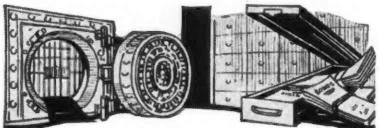
Safeguarding Security Yields

By R. E. REICHERT
Commissioner of Banking, Michigan

Yield on Investments Believed Beyond Control of the Banks. But They Can Regulate Overhead by Adjusting Interest Rates and Through Careful Accounting. Reserve of Forty Per Cent Considered Reasonable Ratio to Ask of Conservative Banker.



A Pertinent Question

MUST banks accept a different standard as to the yield of securities and must they be satisfied with a lower rate of return as a result of the developments of the past two years, or will adjustments take bank investments back to the former basis? This is the pertinent question asked here. The answer is that the banks must adjust their costs of operation if, as the article assumes, lower yields are to be expected. Service charges and efficient accounting systems are advocated.

TO have a proper ratio of readily convertible securities, with a satisfactory yield, to deposits, is the concern of every conservative banker. In this, however, is immediately encountered the inevitable conflict of yield with liquidity.

There is no question that the one very largely controls the other. When we consider, however, that during and after the war we suddenly found ourselves the financiers of the world, that internal and foreign business and foreign governments looked to us to assist them and provide the necessary capital to extricate them from their financial difficulties, we realize that in this we were faced with a tremendous problem. I question whether we even now realize our financial resources when compared with the rest of the world. The tremendous increase in our financial resources since 1917 is probably best evidenced by the bank deposits which are at present approximately $56,858,000. They have more than doubled since 1917 and at present represent more than 62 per cent of the bank deposits of the world. This gives some idea of our financial progress during the last ten or fifteen years.

To go still further, the Department of Commerce estimated the wealth of the nation at $186,300,000,000 in 1912; in 1920 the estimate was $471,030,000,000. This, however, was deflated to $336,175,000,000 in 1927. Gold reserves increased from January 2, 1917, when they were $746,236,000 to $2,733,187,000 on January 2, 1928, while call loans in December, 1917, which is the first record we have, were $498,000,000 and on January 2, 1928, they were $2,782,000,000. These figures indicate that brokers loans, which in a measure reflect stock operations, very nearly advanced in the same ratio with the increase in gold reserves. The situation did not apparently cause any alarm until it was discovered that call loans during 1928 very nearly doubled, while gold reserves decreased approximately $150,000,000.

The Question at Issue

AN analysis of recent statements on brokers loans discloses this very interesting information: that while brokers loans nearly doubled in 1928, call loans of New York banks actually decreased $150,000,000, outside banks increased their call loans by $460,000,000, and all other sources increased by $1,600,000,000. These are approximate figures, but they do give us the striking information that until outside sources entered to supply the call loan market, call loans and gold reserves advanced on the same approximate ratio.

It is further apparent from the developments over the past two years, so far as market conditions on securities are concerned, that men who have for a long period been most active in financial circles have frequently been wrong in their diagnosis of the situation. The question at issue seems to be—do we have to accept a different standard as to securities, especially the junior securities, in their relationship to yield, and must we be satisfied with a lower rate of return, or will adjustments take us back to the former basis?

Trying Its Hand

IN addition to the resources of this country, as reflected by the nation's wealth and bank deposits, the ratio of gold reserves and call loans as they affect present market conditions of securities, there are two other factors that should be considered. One is speculative capital, which was formerly employed in real estate operations, that avenue being more or less closed for the present due to an over subdividing frenzy throughout the country. This capital is now trying its hand at the stock market. The other is a new factor in this country. I refer to investment trusts and trading corporations. To what extent it influences the present market is a matter of speculation.

These investment trusts are in two forms—the fixed type and the managerial form. In the fixed type, securities are purchased and put away, thus being taken off the market. In the managerial form they are traded in, and in some instances the funds are loaned on call. It is also conceivable that in the future these trusts may become deciding factors in the operation of corporations. It is quite possible for the managers of these trusts, with a small investment due to the present-day method of capital set up, in the form of Class A and Class B stock, to use the trust as a holding company and by their management, with a small investment on their part, really control large corporations.

Whether their influence will be good or bad, I am not prepared to say. There is no precedent to follow. There is no question that it should be given some thought by bankers and have their careful consideration. Especially should this be the case in states where legislation is pending, intended to properly supervise the activities of these trusts.

Three Lines of Reserves

THESE various factors, together with other favorable conditions, gave the market an additional impetus on its rise. What levels it will seek in its adjustment, as it eventually must, I do not know. That it will be on a lower yield due to the tremendous wealth of the country, of that I am satisfied. I am rather inclined to the opinion that a level, pertaining to the price of securities, will be brought about by a series of adjustments. A few have already occurred. Adjustments will and must come and on a different dividend and interest return basis than heretofore.

The question now naturally is, what

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Dramatizing Savings Accounts

By ORRIN C. LESTER
Vice-President, Bowery Savings Bank, New York

Most Potent Appeal Savings Banks Have Is Savings Accounts. Revitalized They Would Offer Greatest Scope for Furnishing Financial Facilities to Depositors. Permanent Savings Held Basis of Business Which Needs New Dress to Attract Public

RECENTLY I undertook to make some study of the official reports of savings bank conventions to find out what subjects had been most prominently under discussion in recent years. I found that such questions as investment laws and policies, branch banking, rates of interest and the methods of computing interest, school savings, industrial savings, advertising, the competition between banks and other agencies that accept savings, and a variety of miscellaneous subjects covering the policies of management and operation had been discussed over and over again.

But I found that emphasis had not been placed with anything like equal force upon what seemed to me to be the most important and basic of all subjects in a savings bank, and that is the savings account itself, because this is the instrument through which all the other functions of savings banking are made possible or necessary. Moreover, unless the savings account is functioning in the economic lives of the people in harmony with the purpose which it properly should fill in any particular time or generation, the savings bank is falling short of the main object which it is designed to accomplish.

There are two observations to be made at the outset. The first is that in the main savings bankers do not know as much as they should know about the character of the business on their books; and second, many are pretty vague and uncertain as to what they would like the character of their business to be.

Make It Sparkle

"IF there is as much of human appeal and fundamental value in the savings account as I think there is, the ability and the skill can be found to dramatize it and to make it sparkle with new life and interest, and a plan can be developed for the accomplishment of its purpose that will appeal to the imagination of men."—Orrin C. Lester.

Asked Four Questions

WITH these two observations in mind, and in order not to rely too much on personal opinion, I made some informal inquiry among savings bankers about the nature of their business. Among other things, I asked them these four questions:

"What different variety of accounts do you offer to your depositors?"

In every case I got the answer: "Oh, we offer individual accounts, joint accounts, trust accounts, society accounts, etc.," some adding the Christmas Club. My question may not have been quite fair, but it indicated at least one condition: that is, the tendency to think in terms of our legal right to accept accounts as to form rather than our social responsibility to classify and develop these accounts as to purpose.

I asked: "How many savings accounts have you on your books?" and promptly they gave me the total number of depositors in their banks, supplemented in most cases by the total amount of deposits. Again my question may not have been fair, but again it seemed to indicate a tendency to think in terms of how many people we serve rather than the manner in which we serve them.

I asked why they had set their dividend at their current rate, which in all cases was 4½ per cent. They said because their surplus was in condition to justify that rate, and besides, they thought their depositors were entitled to it. A few said, "Because you big fellows did it first." To my mind, this showed a third condition; that was, a tendency to follow a course of uniform practice and treat all depositors alike in interest rates whether the earnings on the accounts justify a uniform rate or not.

The fourth question was this: "What do you do with a new customer to try to develop him into a consistent saver?" I must confess that the answers to this question were rather too indefinite to take the time of your conference.

Then I undertook to analyze a block of accounts in the Bowery Savings Bank. We selected 5000 accounts between one and two years old; that is, accounts that had been on our books not less than one or not more than two years. We divided them into four different divisions as to purpose. These four divisions were: the savings account, the investment account, the spending account, and what we called the "futile" account. It was soon apparent that this was not a fine enough division, so we added the fifth, which we called the "special" account.

We defined these five forms of accounts in this way:

In order to measure up to the test of a real savings account, a depositor's record should show at least twelve deposits a year, and the record should indicate that the account was being maintained for the accumulation of capital for some permanent use in that the withdrawals were of such amounts that it would be reasonable to suppose that they represented transfers to other forms of permanent investment. It is assumed in this definition of a savings account that the main source from which the average individual has a possibility of saving money is the income from his work. There may be variations from that, but in the main it will be found that the earnings are practically the only source of savings for people of moderate incomes. Therefore, we regarded twelve deposits a year as altogether reasonable. Some of those to whom I talked said it should be twice that.

The investment account was distinguished from the savings account in that it had an initial deposit of $500 or more, with less than twelve deposits within a year and with indications that the funds were being left in the savings bank because the depositors were seeking safety primarily for their investment money and were satisfied with the savings bank rate; or that they were using the savings bank as a stop gap until they could find a more permanent and profitable investment.

The spending account was distinguished from the savings and investment accounts in that it was a sort of in and out affair with fairly consistent deposits and withdrawals, one about cancelling the other, with a balance any place from $100 to $500.

The futile account was one of those accounts which either never got started in any practical way or just gradually petered out to the point that it seemed of little particular benefit either to the bank or to the customer.

The special account represented everything not classified in the four divisions just mentioned, but primarily it was a relatively inactive account of too small an amount to be classified as "investment" or too good to be classified as "futile."

This analysis showed the following results. (The percentages are given in round figures and are approximate only).

Savings account......	738—15 per cent
Investment account...	2,096—41 per cent
Spending account.....	458—10 per cent
Futile account........	613—13 per cent
Special account.......	1,095—21 per cent

As we went further down the line to the older accounts, the study seemed to indicate considerable increase in investment accounts and in spending accounts and a gradual decrease in the other three forms.

Obviously, the most profitable account is the investment account where the

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Common Stock Responsibilities

By MERREL P. CALLAWAY
Vice-President, Guaranty Trust Company of New York

ADVOCATES of the investment of trust funds in common stocks say that to preserve trust funds intact and earn an income for the beneficiaries is not enough; that the estate, itself, should be given the chance of enhancement and the opportunity to share in the growth and prosperity of the country through the purchase of common stocks. They point out that many of the very fortunes in trust were built up through wise and prudent investment in stocks, and that the process should be carried on or originated by the trustee.

Let me say at the outset that I am not opposed to investment in common stocks under certain circumstances. In fact, I favor the inclusion of common stocks in some classes of trusts, selected with care after analytical research and study, in reasonable proportion to the size of the trust fund, and with due consideration as to whether stocks of any class are proper for the particular trust under review.

To my mind, however, the advocates of investment in stocks for trust funds generally are going dangerously far. It should not be forgotten that the very origin of trusts and trustees was to take care of property for those who for some reason were unable to take care of themselves. The first duty of the trustee was to conserve the principal and to make sure that the incompetent, disabled, aged or immature beneficiary received the income during the entire period contemplated with certainty as absolute as humanly possible. The beneficiary in that case might or might not be particularly benefited by an increase in income, but a loss of the principal would be a terrible disaster. Trusts of that type are governed by the same conditions and necessities today as in the past, and investments should be of the most conservative character.

Business Trusts

THERE are, however, in increasing numbers trusts where the maker really desires business administration of the funds placed in trust. Enhancement in principal is sought and the trust is really estate management rather than pure trust. Into such trusts, with such an end in view, stocks properly go. There are other trusts in which from their very nature or size, stocks may be quite desirable, and the trustee might well assume the duty of making such investments. But it is a matter of judgment in each case, and no absolute rule can be laid down.

Surely no one, however enthusiastic over stock investment, would be in favor of changing the laws so as to permit any and all trustees to invest funds, held for the daily bread of women and children, widows and orphans, the old and the helpless, in any and all stocks. Yet, if any trustee is permitted by law to purchase stocks and to have the protection of the law in so doing, all trustees must have the same right—the individual as well as the trust company, the inexperienced as well as the experienced, the gullible as well as the wise.

The fact should not be overlooked that in spite of the great advance of the corporate trustee, that by far the greater part of the funds in trust and left in trust in this country are administered by individuals. Very frequently the individual trustee has no, or very little, knowledge of investments. Would it be safe to open the legal doors for all trustees to make investments in stocks, however carefully the law might be drawn as to nature and character of the stock? However restricted the type of stock made legal for trust investment might be, however carefully the stock might be selected at the time of purchase, has the average individual the experience, the time or even the qualifications to enable him to study the trend of conditions, changes in methods, the development of competition pertaining to the business in which he is a partner, and to sell or change his investment if changed conditions make it wise to do so? He has not, and I think the possibility can be eliminated, of having the laws changed so as to permit the general public when acting in a fiduciary capacity to invest in common stocks.

A Big Order

THAT brings the question down, therefore, to the limited class of fiduciaries who, in the absence of or even with the benefit of statutory authority, can properly make and care for stock investments. Many individuals, with no one to account to but themselves, do it well for themselves. But how few of them can spare the time necessary to the handling of a trust, and the time necessary for the investment features of the trust. Therefore, the fact must be recognized that if stock investments are to be made, the logical trustee is the bank, the trust company.

But let me point out some of the facts the bank must face when making or contemplating making stock investments. It does not have, and I do not think it will have, the protection and benefits of statutory authority in the making and selection of such investments.

The courts for the most part hold steadily against such investments. Even where the testator or the grantor has given the trustee the utmost freedom of investment, or to hold stocks owned by him, the courts hold the trustee to the strictest accountability. The trustee can not buy speculative stocks, or in some cases, even hold them where turned over under the express terms of the trust. There are even cases where the trustee was held liable for accepting stocks of speculative character from the grantor himself, notwithstanding permission in the agreement for direction of investments by the grantor.

In the few states where the courts will look not with complete disfavor upon investment in stocks, the trustee is required to look at the size of the trust, the probable life of the trust, the needs of the beneficiaries, and to make the investments in stocks with relation and in proportion to these factors. It may be said to be a general rule of law, even where the trustee is authorized to invest in its discretion, that the right to purchase common stocks must be clearly given in the instrument, and where so given, the purchase must be confined to stocks of highest grade, with a record of dividends, and non-speculative in character. A pretty big order, you will say, and it is. But that is not all.

Values Change

AS I have pointed out, the responsibility of the trustee does not end with the purchase. It only begins. Fashions change, tastes change, advances in the arts and sciences, developments in locomotion and transportation, and the like, bring about great changes in industries and values, which affect or even wipe out the values in which the trustee bought an equity, or, on the other hand, they may bring about a great growth in the corporation and enhance the holdings of the trustee. These trends and changes, the trustee, if prudent, must watch and judge.

Now as I have said in the beginning, I am not against a prudent investment in common stocks where the nature of the trust permits it, but I am trying to show that unless a company is equipped to handle such investments, unless it has an investment organization or a man sufficiently experienced and qualified to make such investments, that company would best refrain from investing trust funds in common stocks. This I believe is but justice to the estates in its care, and but justice to the company.

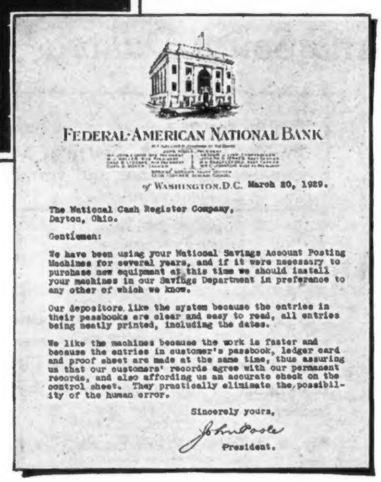
Much of what I have said about investments is purely academic insofar as the laws of many states are concerned. It is true that the tendency in the makers of wills and trust agreements is to give to the trustee considerable discretion in making investments, particularly where a bank or trust company is named. Where that is the case, most of what I have said applies. But the majority of wills in most states fail to give the trustee full discretion in investments, or any discretion at all, and in those cases the trustee is confined to investments made legal by statute.

A Bank President—

appraises the value of the National Posting Machine

Savings department of Federal American Bank

The Federal American overlooks no modern development to aid in giving the best possible service to depositors. National Posting Machines and low, clear-vision counters are two features of this bank's service which appeal strongly to depositors.



FEDERAL-AMERICAN NATIONAL BANK

of WASHINGTON, D.C. March 20, 1929.

The National Cash Register Company,
Dayton, Ohio.

Gentlemen:

We have been using your National Savings Account Posting Machines for several years, and if it were necessary to purchase new equipment at this time we should install your machines in our Savings Department in preference to any other of which we know.

Our depositors like the system because the entries in their passbooks are clear and easy to read, all entries being neatly printed, including the dates.

We like the machines because the work is faster and because the entries in customer's passbook, ledger card and proof sheet are made at the same time, thus assuring us that our customers' records agree with our permanent records, and also affording us an accurate check on the control sheet. They practically eliminate the possibility of the human error.

Sincerely yours,

John Poole

President.

From the President

THE customer and the visitor to the Federal American National Bank is impressed at once with the modern features of the institution.

The new low type counters with clear vision for teller and depositor strike a new note. And back of these counters the depositor finds National Posting Machines, providing service as different from the old pen and ink posting as these new type counters are from the old.

"Four years' experience with these machines has convinced us of their value," writes the President of the Federal American. "Our depositors appreciate the printed figures in the passbook, tellers handle work more expeditiously, and the bank gets a higher degree of protection than ever before. Peak days and peak periods of the day are handled without confusion or delay."

These statements carry with them the experience of twenty-two years as a banker. They are typical of the opinion of the hundreds of institutions which are using National Posting Machines.

Hundreds of the most prominent banks of the country are using National Posting Machines for Savings Accounts. Our Bank Division at Dayton will be glad to give complete information.

The National Posting Machine for Savings Accounts

***Product of* The National Cash Register Company, Dayton, Ohio**

The Condition of Business

Manufacturing and Trade Continue at Record Volume. Banking Situation is Strained and Money Rates High. Material Easing of Interest Rates Is Not Looked For. The Question of Financing Exports. Stock Market Confident; Bond Market Depressed.

THE past month has brought a continued high rate of activity in the basic steel and automobile industries and in a host of other important lines, with the exception of building construction, which is slowing down somewhat. Distribution of commodities is running along with a volume and smoothness seldom surpassed. There is an absence of such troubles as car shortage, labor strikes, commodity price gyrations, or excessive inventories.

Whatever easing took place in rates on bankers' acceptances and on time loans apparently raised false hopes that the money market was returning to normal, for another stringency developed in connection with May 1 transactions which are usually of relatively moderate size. With the temper of the security markets still so confident, there seems little likelihood of any material easing in interest rates. Meanwhile the bond market is depressed and the decline in new offerings is not only affecting building construction and public improvements in this country, but has cut off the source of foreign credits that other countries need for settling their huge balance in our favor on account of interest, dividends, and exports.

A Gain in Earnings

EARNINGS statements published during the month make an excellent showing, even allowing for the fact that the best reports are usually published most promptly. To date, 170 reports have been issued which show combined net profits of $335,000,000, representing an increase of 31 per cent over the corresponding period of 1928. Following is the tabulation by major industrial groups:

Industrial Corporation Profits

000's Omitted

Number	Industry	First Quarter, 1929	Per Cent of Change from 1928
11	Automobiles	$87,501	— 0.4
17	Auto accessories	12,681	+ 62.3
5	Building materials	3,813	+ 33.9
13	Chemicals and drugs	41,182	+ 22.8
15	Food products	28,871	+ 19.0
7	Household appliances	6,812	+ 11.0
18	Iron and steel	71,160	+111.5
16	Machinery and tools	31,024	+ 32.2
8	Merchandising chains	6,698	+ 24.5
7	Metals	4,662	+105.4
5	Office equipment	5,580	+ 35.9
12	Petroleum	19,756	+103.5
6	Textiles and clothing	2,453	+ 39.7
30	Miscellaneous	13,564	+ 5.1
170	Total	$335,757	+ 31.3

It will be observed that every group but one shows an increase and that the gains in auto accessories, iron and steel, and petroleum are particularly marked. The table includes General Motors Corporation, which reported a decline of $7,000,000, and United States Steel Corporation, which increased $21,000,000.

Production at Record Level

THERE has been no let-down from the record-breaking pace at which the steel industry has been operating, and forward orders are on the books in substantial amount, with pressure for quick deliveries. Automobile production likewise has moved into new high ground and indicates that the full year's output will be something between 5,000,000 and 6,000,000 vehicles. Building construction is the only one of the triumvirate of basic industries which have been such major factors in the prosperity of recent years that has shown a decline from last year. Contracts awarded are running some 15 per cent less, the largest declines being in residential building, public works and utilities.

A high rate of activity prevails in numerous other important lines. Tire manufacturers are running at record levels, and although the industry as a whole has built up its inventories of finished tires to the highest point ever reached, these may not be excessive when measured by the high rate of motor car output. The situation merits a degree of caution, however, so as not to overproduce. Cotton consumption is running very heavy and likewise should not be overdone. Silk mills are busy, copper mines are operating at capacity, soft and hard coal mines are busier than for several months back, the petroleum industry is building up refined stocks for a record season, and the tobacco companies continue to expand sales at about a 15 per cent annual rate.

Trade Is Generally Satisfactory

THIS volume of manufacturing, never surpassed, has not resulted in any congestion of markets or decline in prices such as often occurs, for the reason that distribution has kept pace with it. As measured by railroad freight car loadings, and sales of chain and department stores, the movement of commodities into consumption is proceeding with a volume and smoothness seldom witnessed. A study of reports for all large merchandising chains in the United States shows that the year to date has brought sales more than 20 per cent above the corresponding period of 1928.

It must be recognized that in the numerous changes that are taking place in methods of distribution the advance of the mail-order houses and their entrance into the chain store and department store field on an extensive scale is most significant. In certain commodities they are changing the channels of distribution entirely, as in radio batteries and automobile tires. Many of these standardized articles they can buy in enormous quantities and deliver to the consumer at less than it would cost a small manufacturer to make. In these two lines of business there has been an appreciable slowing up in collections that must be watched. There is no confirmation, however, of the assertion that is often heard, namely, that collections throughout the country are slowing up because the public generally is disposed to put its money into the stock market instead of paying its bills. Sales and collections are satisfactory in most lines, and particularly in the metals, machinery, tools, implements, and airplanes.

Farm Prices Among the Highest

IT is doubtful whether the business public realizes the good fortune that the country has had for several years now in the relative stability of commodity prices. There are necessarily advances and declines in individual commodities as rightfully reflecting the shifting of supply and demand, but the changes tend to offset one another and the composite has been remarkably stable. If there is anything that business needs it is stable prices, whether they be high or low.

In view of the agitation that is going on at Washington for raising prices of agricultural products, it is interesting to note that the latest table of the United States Bureau of Labor shows that this group stands the highest of any major commodity group, save hide and leather products. The following figures are taken from the official statistics covering about 550 different commodities in wholesale markets, and show the group indexes for March, 1929, as compared with one year previous.

Wholesale Commodity Prices

U. S. Bureau of Labor Statistics
Relatives, 1926=100

Commodity Group	March, 1928	March, 1929
Farm Products	103.5	107.1
Foods	98.0	98.1
Hides and Leather	124.0	108.3
Textile Products	96.5	96.1
Fuel and Lighting	80.8	80.6
Metals and Products	98.4	106.4
Building Materials	91.0	97.8
Chemicals and Drugs	95.6	95.6
House Furnishing Goods	98.3	96.5
Miscellaneous	79.1	92.4
All Commodities	96.0	97.5

Without doubt, the feature of the commodity price movement during the past month was the break in copper prices, from 24 cents per pound down to 18 cents in the course of less than a week. This bears out in striking fashion the suggestion made in this review last month as to the effect of a large and rapid increase in price, cutting down consumption, stimulating production, bringing out stocks that were not known to exist, and calling substitutes into play.

Money Continues Abnormally High

THERE has been no real change in money market conditions. After the April 1 quarterly transactions, there occurred the usual seasonal easing in call loans, and this was followed by announcement of fractional cuts in the rates on bankers' acceptances and also on time loans secured by collateral. This development was naturally heralded by people who were guided by hope rather than facts as indicating the turn-back to normal money conditions.

Toward the end of the month, however, call money rates flared up again to 16 per cent, and the stock market would have been faced with a crisis similar to that nearly precipitated one month earlier had not a number of the banks stepped in to supply funds temporarily, and against their own wishes. May 1 requirements are not considered large enough to cause any real strain on the credit structure, but conditions at the moment are particularly sensitive, and the very large amount of non-banking funds now outstanding on Street loans makes the withdrawal of even moderate amounts have an important effect on rates.

Banking Obstacles Not Yet Surmounted

FOR the person who follows the banking and credit situation in a broad way it is apparent that no material progress has yet been made in getting around the obstacle of an over-expanded credit structure and the consequent abnormally high rates. We have referred to this problem repeatedly, pointing out the difficulty of encouraging a liquidation in the securities markets because of the bullish temper of that market and the unfavorable effect upon individual investors and on general business that any forced decline in quotations always has.

At the same time, if this high money continues, it cannot fail to eventually have a bad effect on business. New building construction has already fallen 15 per cent under last year's volume due to the difficulty in getting mortgage money.

Federal Reserve policy is following a middle course, for it is obvious that to make money artificially easy might eventually lead to another and worse stringency in time, and to make money tighter might definitely hurt trade and industry which the banking authorities hardly have the courage to do. So far there has been no way around the obstacle discovered without slowing down business, and the outlook is not encouraging.

Crop Prospects Improve

A LATE start is being made in agriculture this season because of the rainy and cool weather which has hampered field work, delayed the germination of seed and put the early blossoming fruit trees in danger of damage by frost. Acreage will be approximately the same as last year, according to the annual survey made by the Department of Agriculture on the intentions of planting by 50,000 farmers. Spring wheat acreage will be lower, but durum wheat will be higher. The potato crop will be substantially reduced, which is a good thing, and moderate increases are planned in hay, beans, peas, peanuts, flax and tobacco, also cotton.

Athough stocks of old grain on the farms this spring were comparatively high, there has been a good movement into domestic consumption and export trade, and the carry-over should not be excessive. Outlook is favorable in the cattle, hog, sheep, dairying and poultry branches of farming, but in every one of these lines it should not be forgotten that conditions of production and price tend to move in cycles and that at present we are at the high point. It is not a good time to expand the increase in production, or for new producers to enter the field.

Export Trade Deserves Study

A CONDITION prevails in the country's export trade that is most unusual and deserves careful study, but which so far appears to have received very little attention. We refer to the large increase in our volume of exports so far this year, which brings the figures for quantities and values higher than ever reached, except during the abnormal period of 1920-21. Purchases by the Mediterranean and South American countries were stimulated by President Hoover's tour there not long ago. Europe is buying heavily. Not only in raw materials, which years ago made up the bulk of America's exports, but in the highly profitable and competitive manufactured goods as well, our trade is expanding in a gratifying manner.

At the same time the foreign exchanges are drifting lower under the pressure of our so-called "favorable" balance of exports over imports, combined with the attraction to New York by the high money rates prevailing in the stock market of the liquid funds of other world financial centers, and the fact that these high rates have destroyed our bond market and therefore made it impossible to sell foreign bonds at advantageous prices so as to provide foreign credits. In the case of Germany, the break-down of the reparations conference resulted in a further withdrawal of funds from that country which caused its exchange to break severely—far below the gold point at which shipments of the metal out of that country is profitable. Unless this tight money situation is corrected before autumn these foreign countries will not have the purchasing power with which to buy our wheat, corn, meats, cotton, etc., as well as year-around commodities such as copper. This could only result in the surplus of agricultural products backing up in domestic markets and causing a break in prices which would have grave consequences not alone to agriculture but to business generally.

Stock Market Recovers to High Point

AFTER the money crisis the latter part of March was averted, the market regained courage and after a spell of relative quiet trading in which brokers' loans declined moderately, started working upward again and at this writing is again around the highest level ever reached, as measured by the "averages."

Excellent earnings of industrial corporations for the first quarter have furnished ammunition to the pools and other interests working on the up-side, and the sustained high rate of operations in the basic industries is taken by many people to indicate that business is not being affected by the high money rates and can in some way be immune. With a constantly increasing number of signs appearing that business will eventually be affected, and that the record pace of business so far cannot be kept up in the second half of the year, the likelihood

(*Continued on page* 1176)

Major Financing in April

(*See page* 1176)

Issue	Amount	Rate	Due	Price	Yield
City of Chicago tax warrants	$50,000,000	5⅞–6	1930	...	5.60
Phila. & Read. Coal & Iron conv. deb.	30,800,000	6	1949	100	6.00
Amer. I. G. Chem. Corp. conv. deb.	30,000,000	5½	1949	95	5.93
State of Arkansas	28,000,000	5	1930–61	...	4.75
Southern Cities Pub. Serv. Co. conv. deb.	17,500,000	6	1949	99	6.00
Fox Film Corp. notes	12,000,000	6	1930	99	7.05
Carolina Power & Light Co. 1st & ref.	8,000,000	5	1956	99	5.00
Warner Co. 1st s. f.	7,000,000	6	1944	99	6.10
Hotel Pierre, N. Y. 1st s. f.	6,500,000	6¼	1949	100	6.25
N. Y. Central RR. eq. tr. ctfs.	6,300,000	4½	1930–43	...	4.90
Parmelee Trans. Co. s. f. conv. deb	5,000,000	6	1944	99½	6.00

Invisible Banking System

(*Continued from page* 1075)

it or where in our arguments we are likely to attempt to place it.

I do not think that fundamentally all this trouble with our interest rates is legitimately to be charged against the speculative proclivities of the American people. Nor do I believe that it is primarily a matter of what the Federal Reserve Board has mistakenly done or mistakenly refrained from doing. I think that the responsibility instead is clearly, fundamentally, located in the mechanism and procedures of the call loan market of the New York Stock Exchange. It is our American method, I think, of organizing and operating that great call loan market that is responsible for the bringing into that market of the enormously great funds that have gone there in the past three years from sources other than banking.

Our call money rate today is really the controlling interest rate of the world. It is fluctuations in that rate, and particularly the high prevailing level of that rate, that is primarily effective in bringing in gold imports. The level of that rate controls the other rates in this country, not directly but in general levels. Twelve foreign countries have been compelled to lift their rediscount rates already and I think everyone would agree that in nearly each one of those instances, if our call loan rate had been at the levels to which we were accustomed to see it in past years, those countries would not have been compelled to lift their own central bank rediscount rates.

So I think that as we consider what has been happening in this period of extraordinarily unusual interest rate changes, we ought to look further than we have been accustomed to look to place responsibility. I do not think we are going to settle it by getting the Reserve System to make some such change as an advance or a decrease in its rediscount rates. I do not think we are going to get anywhere in it by blaming or defending our Reserve System or Wall Street in general. I think we must look further back into the mechanism of that call loan market in New York, which is responsible for drawing from the banking institutions of this country during these past two years enormous amounts of corporate funds, and putting them there where the new banking system is quite free from Federal Reserve control, where it is unburdened by any visits from the bank examiner, and where it is not charged with any responsibility for safeguarding public interest with regard to its credit supply.

I think it is a serious matter. My own view is that this new invisible banking system, based on the peculiar purely American mechanism of call loan market in that New York Exchange is not only very seriously impairing the prosperity and the prospects of American commercial banking in general, but that it is rapidly undermining the Federal Reserve System.

Farm Problems

(*Continued from page* 1080)

preliminary study of truck crop financing by distributors of that city, and similar information is being assembled from other parts of the country. Data so far assembled, although meager, indicate that growers are depending more and more on distributing companies and the trade to supply them with "growing money" and are not being disappointed. There is an increased willingness among these commercial groups to place moneys at the disposal of the growers on more and more liberal terms.

The security required by the distributor is less formal than that demanded, as a rule, by banks, loan associations and other financial institutions. Generally speaking, the type of collateral which is accepted by distributors is not a negotiable instrument. It represents little more than a moral obligation and is seldom discounted and turned into cash. The shipper is often able to secure 50 per cent of his loans without paying any direct interest charge whatsoever; for the other 50 per cent he pays only the average rate of 6 per cent.

Just what effects such loans have on the individual growers and on the industry as a whole cannot now be stated with decision, but it is hoped that by a year from now more will be known than at present about the financing of this enormously expanded industry.

Marked Progress Made

THE fruit and vegetable industry itself is active in bringing about certain changes to meet changing conditions and to meet more effectively the stable conditions. In the case of several of the perishables, as with peaches, marked progress has been made in weeding out commercially undesirable varieties. As with strawberries, much has been done toward lengthening seasons that were once notoriously short. On many large markets, February strawberries are now sometimes as low as thirty-five cents a quart and thus within the reach of the average family for dessert, and everbearing strawberries may be found on the markets as late as October. The success of the cranberry industry in extending its season from the Thanksgiving and Christmas holidays to a winter-long one is well known.

Then commercial growers are improving the integration of crops as between sections, although this is sometimes so affected by weather as to nullify efforts. The success of the chief money crop of a specialized locality often depends, in a given season, upon not overlapping the shipping seasons of growers of that product further south.

Cooperation has long been practiced successfully among growers and shippers of perishables. Some of our oldest outstanding cooperatives handle either fruits or vegetables. For instance, the American Cranberry Exchange has been operating for more than twenty years, the Eastern Shore of Virginia Produce Ex-

change has been operating for more than twenty-five years, and the California Fruit Growers Exchange for more than thirty years.

Should Be Awake

ONE of the newer developments in this field of cooperation is the apparent trend toward larger associations, perhaps fewer in number. Another recent development which relates especially to perishables is found in the movement toward establishing clearing houses. These organizations are being watched with the greatest interest by observers in the industry the country over.

Among other newer phases to be considered in marketing perishables are such developments as the f.o.b. fruit auctions, which came and went, the chain stores, and the roadside markets. All must be studied and kept in mind, and the older methods must be watched as well, for changes are taking place there, too. Or in other cases, expected changes do not take place as rapidly as anticipated.

Apparently no one who is studying the fruit and produce business closely believes there is any one solution of its problems or any one specific direction in which it should grow. They incline to believe that opportunity now lies rather more in cultivating the markets in areas already within the reach of the industry than in finding markets as yet untouched by it, or in any great reduction in transportation costs. They believe in the possibilities of increasing consumption per capita by improved distribution and by cultivating the tastes of the consumers. They believe the industry should endeavor to keep down costs, should be awake to dangers as well as to opportunities, and that it should have, and should use to the utmost, full and properly interpreted economic information regarding the industry.

Investment Trust Regulation

(*Continued from page* 1081)

thereby in such securities as they believe profitable. The legal relation between such an investment trust and its stockholders or bondholders is similar to that arising in the case of other corporations.

In the second group the relations between the purchasers of securities and the corporation are governed by the indenture entered into at the time the trust is created. This group is again divided into types; the fixed type which confines its dealings to specified securities and the quasi-fixed type in which the underlying securities are subject to limited changes from time to time in the discretion of the management.

The securities commissioners consider it highly desirable that the forms upon which investment trusts make application to sell securities within the states should be standard, with such adaptations as are necessary to comply with lo-

cal laws. The forms are designed not only to furnish information requisite to authorize an investment trust to begin the sale of its securities within a state but to facilitate examination and revision of information. When the facts have been fully presented to the commissioners through the proposed form, the association believes that certain essentials should be present to constitute a sound organization for an investment trust company. These essentials are:

1. The securities offered should be in marketable form and negotiable by endorsement.

2. The personnel of the office and management should show a clear record of good business repute and should be men of integrity and investment experience.

3. The officers, promoters or managers should make an investment in the enterprise of their own funds sufficient to assure a personal interest in the proper conduct thereof.

4. Certain essential fundamentals should be present in the charter or agreement which should be of such character as to amount to a covenant with the investors. Some of these are as follows:

(a) Adequate provision in the charter or trust agreement or like organization indenture definitely and accurately stating the plan and policy of operation.

(b) Provision for periodic statements of the financial condition of the company, including balance sheet in detail, income and disbursement statement, and in the case of a fixed trust an itemized list of investments held in the portfolio, or in the case of a management trust, a classification of investments held, this information to be furnished the share or unit holders at periodic intervals.

(c) Provision that the capital assets cannot be distributed during the life of the trust through dividends.

(d) Provision for the establishment of reserves and for surplus out of the current net cash earnings from whatever source.

(e) Definite statement as to the cost of management and the expense incurred in the raising of capital.

(f) A clear statement of any privileges accorded the incorporators, officers or managers.

There has been a disposition to look upon these essentials to a sound organization as fixed by the securities commissioners as in the nature of a code of ethics for investment trusts. This they may become. But for the present at least they represent what the blue sky officials of the various states propose to demand of these companies as a condition precedent to doing business within their respective jurisdictions. Regulation of the investment trust has begun.

To Guard the Public

FOR the many sound and successful investment trusts there is no need for an arbitrary code of ethics. The ethics of such companies are always unchallenged. It is to guard the investing public against the kind of enterprise which is not concerned with ethics and which has been ever-present in other fields of finance that regulation has been devised.

Already the proposed procedure for dealing with investment trusts has been subjected to criticism. The feeling has been expressed that the essentials of a sound organization as described by the commissioners may be all very well but they represent the views of officials without power in the absence of strong and specific legislation.

But it must be remembered that so far only a beginning has been made in the direction of adequate supervision of investment trusts. Whatever the securities commissioners may accomplish with-

out more laws to be added to the existing multiplicity of statutes will be just so much more of a benefit to banking and finance.

Congress Interested

THE first step has been taken. It yet remains to be decided whether the supervision of investment trusts is a function of the state departments supervising banks and trust companies or comes under the jurisdiction of the state securities laws. How individual states finally determine the question of where the duty of supervision lies is of less importance than that there should be state supervision, uniform so far as possible in method and in the requirements demanded of the investment trusts.

Federal supervision is the alternative. Hints have been heard in Congress that the new developments in the field of banking and finance are to be studied. Study in Congress always takes the form of attempted legislation at least.

Foundations for Federal supervision of investment trusts are already available. Under the provisions of the McFadden banking act the Comptroller of the Currency is empowered to approve or disapprove the securities which a national bank may buy or sell. An extension of this function might not be difficult.

Adequate and uniform state supervision of investment trusts, which protects the investing public without harassing or handicapping the sound and well managed companies would obviate any need for the entrance of the Federal government into this field. Less government in finance is as desirable as less government in business.

The Banking West

(*Continued from page* 1084)

there were 1194 state banks (with $2,000,000,000 in assets) and 619 national banks (with $1,500,000,000 in assets). Today there are 886 state banks (with resources aggregating $2,000,000,000) and 499 national banks (whose resources total $3,000,000,000). The Twelfth District, covering an area of 717,822 square miles comprises 23.8 per cent of the area of the continental United States. Probably two of its most important single industries are lumber and petroleum. The total dollar value of lumber and timber products, reported as $178,000,000 in 1914, increased to $682,000,000 in 1928; the total value of petroleum products increased from $56,000,000 to $370,000,000 during that period. The dollar value of all industrial output is given as $1,264,000,000 in 1914 compared to $4,960,000,000 in 1928. Total dollar value of the agricultural output, not included in the foregoing, was $490,000,000 in 1914 and $950,000,000 in 1928. And the advantages and opportunities derivable from this enormously increased productive power in District Twelve, are more generally and widely distributed throughout the Pacific Coast territory than ever before in its whole history.

New Books

AMERICA CHALLENGED. By Lewis F. Carr. Published by the Macmillan Company, New York. 322 pages. Price, $3.50.

An interesting book disclosing the bare facts concerning the agricultural situation and challenging the American prosperity idea with such statements as "the family farm is now five billion dollars a year away from being a going concern." The book is engagingly human, it brings out the real issues in the farm problem. It is startling, since it disagrees with the majority of opinions on the solution of the farm problem. It decries attempts of legislators at solving it as mediocre. Unlike many other books on agriculture, it presents remedies. Greater efficiency in management, the doing away of the one-horse farmer of the South, a tariff to control surplus, a reduction of the rates of the protective tariff to reduce the costs of the farmer, and an equable tax system are offered as solutions. Cooperative marketing, it suggests, will cut down costs and get better prices for farm products. The book may prove to be interesting to both farmer and city man.

BANKING AND INDUSTRY IN MICHIGAN. By Walter L. Dunham, president, Detroit Savings Bank. Published by Madeira Publishing Company, Detroit, Mich. 179 pages.

A brief survey of the evolution and growth of Michigan's financial structure. A story of growth in banking, in transportation and in the motor industry. The book offers a clear vision of the banking and industry of the state as a whole from the earliest days to the present.

EXECUTIVES BUSINESS LAW. By Harry A. Toulmin, Jr. Published by D. Van Nostrand Co., Inc., New York. 752 pages. Price, $6.

Written by a practicing attorney the book presents a survey of what every business man should know about the law. It presents the facts that will enable him to learn when he should consult a lawyer. It is a reference book as well as a text book explaining in simple language, stripped of legal phraseology, the substance of the law. The book is arranged so that it may be consulted with reference to specific problems and its pages are free from the bothersome array of footnotes which so often clutter up a legal work.

BANK SALES MANAGEMENT. By Mahlon D. Miller, Manager, New Business Department, Lake Shore Trust and Savings Bank, Chicago. Published by the Ronald Press Co., New York. 298 pages. Price, $5.00.

This is a text book on what is becoming to be a more and more important department of a bank—the new business department. It describes modern methods of obtaining new business that have been tried and tested and found to be successful not only in selling the services of a bank but of keeping them sold.

Evolution in the Reserve System

(Continued from page 1090)

famous February "warning" statement the Reserve Board had given every evidence of being concerned with day-to-day developments in the stock market. Nevertheless it is in its annual reports that the statements of the policy of the Reserve Board are made.

The New Method

THIS disposition on the part of the board to concentrate upon the longer objectives is made a part of its most recent interpretation of credit policy in dealing with the credit needs of the country. The Reserve Board now draws a sharp distinction between credit policy and banking policy.

Credit policy is now defined as the impersonal influence that the Reserve System may exert on the volume and cost of bank credit through its sales or purchases of securities in the open market, through discount rates on member bank borrowings and through buying rates on acceptances. These are the accustomed methods by which the Reserve System controls credit, or, in the light of the past two years, seeks to control credit.

Banking policy is the new method of credit control. It is the influence exerted by a reserve bank on the loan and investment policy of an individual member bank. Ordinarily it is exercised only over banks that are borrowers from the reserve bank. Primarily it is in the nature of supervision. In this phase it has but a limited effect upon credit. It affects only an individual bank or a small group.

A National Policy

HOWEVER, it may be that instead of withdrawing funds lent on the stock exchange in order to reduce its indebtedness to the reserve bank, when reserve banking policy so demands, a bank may borrow from another bank, member or non-member, which in turn may obtain accommodations from still another bank, which may be in a position to borrow from the reserve bank. As a result of such a series of transactions there would be no reduction in security loans or in borrowings at the reserve bank.

It is exactly this sort of thing that the Reserve System has been trying to meet in its efforts to halt the forward march of brokers' loans. Therefore, according to the Reserve Board, the importance of banking policy lies in promoting the soundness of member banks, and the cooperation of these banks with the Federal Reserve System in carrying out banking policy is essential to the maintenance of sound banking conditions.

Credit policy availed the Reserve System little in the past two years. But in recent months there have been unmistakable evidences that banking policy was at work. It has been a

national policy. The phase of banking policy that is akin to the examination function by the reserve banks is always at work. Its broader aspects are new.

Old Styles Revived

CONSIDER then the trend. With larger banking units operating over wider areas to deal with, and with a nationalized money market rapidly organizing, the Federal Reserve System is turning to banking policy as distinct from credit policy as the expression of its influence. Such a policy by its very nature requires a guiding hand. If such a policy is to be attuned to the longer objectives, that hand must have the strength to hold it to its course. Only through centralized power can such a strength be attained.

To speak of centralized power in the Federal Reserve System is to recall an old controversy. The system came into being after a harsh struggle between the central bank theory and the idea of regional reserves and regional credit policies. But controversy can not stay the trend.

As far back as 1915 the Federal Reserve Board in its second annual report announced:

> "The board has endeavored during the past year to develop a consistent discount policy, graduating its rates according to the maturity and character of paper discounted or purchased in the open market. * * * It may not be practical to maintain uniform rates throughout the twelve districts, but they should unquestionably bear a consistent relation one to another, while a very much greater adherence to uniformity than before the enactment of the Federal Reserve Act will undoubtedly be secured."

Not long after this declaration was made uniformity in the Reserve System went out of fashion. It looks now as though old styles were coming back, and someone always has to set the styles.

Out of the Credit Wilderness

(*Continued from page* 1094)

endeavoring to prevent any development that would find the banks of the country indebted to the Federal Reserve System in large measure when elasticity might be required in order to carry the investing public over the peak of prices when that time arrives regardless of whether it may be far or near to the present in point of time.

For the Greatest Good

IT is conceivable that the market can be made to correct itself with the intelligent exercise of these forces, for when the price point is reached where the income return from securities cannot be expected to improve for a long time to come, they cannot be carried on high money. If at such time no dangerous expansion and inflation exists that will necessitate a great dumping of securities, and if, instead, the peak is approached with a falling off in operations, the protection which the bankers are endeavoring to afford will have been effectual and no crisis need develop.

The Commerce and Marine Commission, therefore, believes that the continued prosperity of the country requires that the problems involved in the extension of credit be left for their solution in the hands of those who have experience in dealing with them, for the situation is delicate at best. Only the exercise of the highest degree of intelligence can result in orderly progress.

It is the desire and the business of bankers, and to their profit, to do everything within their power to preserve the equities that the general public, their customers, have in their holdings, whether it be in the form of securities or commodities. Bankers cannot be expected to accomplish the impossible, and great waves of human optimism and pessimism always cannot be controlled. There is not the slightest doubt, however, but that intelligent banking sense gained from experience and based on desire for the protection of their own business, which is absolutely dependent upon general prosperity, should enable American bankers, including the Federal Reserve System, if not forced into ways against their will that are unsound, to meet such situations as may arise, regardless of their intensity, with the least difficulty to all concerned.

The time to create new laws or regulations, and to correct difficulties that develop in the use of credit, as the industry of the country expands, is not during a period of strain when controversy or any error of judgment might cause a catastrophe, but upon resumption of more normal conditions. It might well be that the experience of the past two years, after present conditions have run their course, will show the advisability of certain changes in the methods under which credit is supplied to carry on stock transactions. Fortnightly settlements or other means of control may prove to be justified or desirable.

There is no question, however, but that cooperation between the Stock Exchange management and the Federal Reserve System and its member banks can be depended upon to secure better results in the accomplishment of such protection than would be possible through public controversy. Further, the disposition of those who represent these great business organizations is believed to be in favor of some effective means of cooperation. In case of need, Congress could be asked to consider legislation which, if found to be sound, would undoubtedly be passed. This method of procedure could be depended upon to entail the least hardship and accomplish the greatest good for the people of the United States.

Foreign Investments in China

Proposals have been presented to the Central Political Council outlining conditions under which the investment of foreign capital in different government construction schemes would be permitted in China according to Commerce Department reports. The Chinese government, however, would retain control of such enterprises.

When Texas Proved the Cheap Money Fallacy

(*Continued from page* 1098)

were overcome and he signed the bill. The barriers against unlimited inflation were thus indirectly but effectually removed.

The new issue did not bear interest, but on account of an impression in red ink on the back of the individual note, were everywhere known as "red-backs." This fact may have had a bearing on the appearance of "greenbacks" in the United States during the Civil War.

Paper "money" in the form of Treasury Notes to the amount of $4,717,939 was issued. In January, 1839, these notes were worth about forty cents on the dollar. A few months later the market was off to thirty-seven and one-half cents. In 1841, the price slumped to twelve cents. The following year the notes tumbled to ten cents and later to two cents. The year closed with the notes practically worthless.

The Treasury Notes were succeeded by what were termed "Exchequer Bills," but they never passed to any extent into circulation. From first to last, the amount of paper "currency" issued by the Treasury of the Republic of Texas, and serving to a greater or lesser extent as circulating media, amounted to $13,318,145, or reckoning the population of the Republic at 50,000, more than $266 per capita. If paper issues could make a people rich, then the early Texans ought to have been the richest people on earth.

Paper Money Prohibited

MIRABEAU B. LAMAR was President of the Republic of Texas from 1838 to 1841. During this period the era of paper money may be said to have reached its hey-day. When Lamar began his term of service, the national debt was, in round numbers, $2,000,000. When he retired the debt had reached the appalling amount of $7,000,000. Inflation had done two or three definite things. Imports had been encouraged and exports had been discouraged. The balance of trade was hopelessly against the Republic. The presence of abundant "money" had lead to all sorts of national extravagance.

The brief story of the Republic of Texas is but an incident in all history. It shows that when a nation has once embarked on a scheme of irredeemable paper money it is extremely difficult if not wholly impossible, to resist the current of its influence. The experience of Texas constitutes no exception to this general rule.

Texans of the early days deserve credit for one thing, at least, even during the period of inflation and money-madness. They had gone the limit in inflation, but they never made their government paper a legal tender in payment of private debts and obligations. Every man was left at liberty to refuse or to receive Treasury Notes at his option. The result was that when "red-

backs" were almost the exclusive circulating medium specie was the standard of ultimate settlement between men.

The people of Texas must have had all the experience they wanted with paper currency, for when the State Constitution was framed, in 1846, the framers, by one of their earliest decisions, inserted in the Constitution these provisions:

"In no case shall the Legislature have power to issue treasury warrants, treasury notes, or paper of any description intended to circulate as money."

"The Legislature shall prohibit by law individuals from issuing bills, checks, or promissory notes, or other paper, to circulate as money."

The first Legislature under statehood, meeting the succeeding year, made the following enactment:

"No person or persons within this State shall issue any bill, promissory note, check, or other paper, to circulate as money."

Heavy penalties were provided for the violation of the law.

From the time of the annexation of Texas to the Civil War, her people had little use for paper money. During the Civil War Confederate paper money found little favor, and circulated only under the pressure of military law and necessity.

Bridging the Chasms of Business

(*Continued from page* 1102)

porating this phase in the proposed national census. This questionnaire called for information on raw materials consumed, stocks on hand, and purchases; consumption, stocks on hand, and purchases of semi-finished products and completely manufactured parts for use in manufacturing and assembling; consumption, stocks on hand, and purchases of mill supplies and fuel; purchases for plant equipment, maintenance, etc.; and distribution of products by classes sold through wholesalers, jobbers, chain stores, retailers, directly to consumers, etc.

It is proposed to restrict the classes of commodities on such questionnaires, in the national census, to the principal kinds of materials used, rather than attempt to secure detailed information on all commodities. It is also planned to confine this inquiry to establishments having an output of at least $100,000 in value.

Altogether, this national census of distribution—if and when it is taken—promises to be immensely valuable to every element in American merchandising. The manufacturer will be affected at both ends of his operations—the raw material coming in at one side and the fabricated products going out at the other. With respect to both, deplorable elements of uncertainty and obscurity have existed in the past.

It is hardly too much to say that, in many instances, a mantle of darkness has enshrouded the paths taken by the manufacturer's products after they leave his factory door. He knows their first destination, to be sure—but what happens after that, before they come into the hands of the ultimate consumer, is something of a veiled mystery. Many of their paths are unquestionably devious.

The national census of distribution should be illuminating in the truest sense. It would throw shafts of sustained and penetrating light across many of the dark places of contemporary merchandising. It would bring out the contour of the land in sharp and clear relief. The manufacturer, the banker, the wholesaler, the chain-store executive, the independent retailer—all could discern their respective positions and determine upon the most judicious, profitable course. From such knowledge, and the immeasurably heightened efficiency that would flow naturally from it, vast monetary savings should result—and our entire business organism might be expected to experience a new infusion of energy, skill, and resourcefulness.

Grain Trading

(Continued from page 1105)

pressed that according to the report of the former Secretary of Agriculture, William M. Jardine, contained in Senate Document No. 264 of February 25, 1929, he was forced to suspend the regulations for eight months in 1927 in order to show by actual demonstration whether there was any merit in the claims put forward.

According to the report of Mr. Jardine, the lifting of the regulations had no effect by way of improving prices or by way of increasing the volume of trading. In fact, the data given would indicate that there was less speculative interest in wheat during the period that the reports were dispensed with than during similar periods when reports were required.

Wheat the Magnet

THE reports on individual accounts were suspended on February 26, 1927, and were reinstated on November 1, 1927, so that during eight months in 1927 speculators were free to buy or sell as much as they wished without the government knowing anything about their operations.

Speculation in wheat is larger by far than in any other grain. Corn comes next, but although the United States wheat crop is less than one-third the size of the United States corn crop, the volume of trading in wheat futures on our markets is approximately three times as large as in corn.

The four principal wheat markets in the United States are the Chicago Board of Trade, the Minneapolis Chamber of Commerce, the Kansas City Board of Trade, and the Duluth Board of Trade. The total volume of trading in wheat futures in these four markets during the calendar year 1927, when the regulations were suspended for eight months, amounted to slightly less than ten and one-half billion bushels. During 1926, the year before the regulations were suspended, it amounted to nearly fifteen billion bushels, and during 1928, when the regulations were again in effect, it amounted to slightly more than ten and one-half billion bushels.

The Dominant Market

THE regulations first went into effect in July of 1923. That year the total volume of trading in wheat futures on the four markets referred to amounted to only about nine and one-half billion bushels, but in 1925 it amounted to nearly twenty billion bushels. Although records of volume of trading are not available prior to 1921, the year 1925 is regarded as a record year for speculative trading in wheat.

The amount of open contracts in wheat futures on the Chicago Board of Trade during the period from February 26 to November 1, 1927, while the regulations requiring individual reports were suspended, was also smaller for the most part than during any similar period for which figures are available (1924-1928). Since between 85 and 90 per cent of the trading in all grain futures in all of the markets of the United States takes place on the Chicago Board of Trade, this market is of dominant importance.

A fair consideration of all the facts seems to indicate rather definitely that regulation of the futures markets by the Federal government has had no harmful effect either in driving speculators out of the markets or in reducing the volume of trading as a whole. Indeed, there is much to suggest that the markets might function better if some speculators did not try to trade in such large amounts.

Prices Still Fluctuate

IT is doubtful if there can be found any law which has accomplished fully all that was expected of it. The Grain Futures Act has undoubtedly had a far-reaching effect in preventing deliberate manipulation of the markets and in preventing the circulation of intentionally false reports, but there are occasions still when prices fluctuate beyond reasonable limits.

Fluctuations cannot be prevented entirely but there unquestionably is room for improvement over present conditions. In 1925, for example, between February

10 and April 16 there were six different days on which the price range in the Chicago May wheat future was ten cents or more. That market was extraordinary, of course, and is not a fair sample of what takes place normally.

Investigation by the Grain Futures Administration of the wide price fluctuations occurring at that time showed that they were caused primarily by the heavy trading of not more than five large speculators. This investigation, supported by more recent studies, has led the government to recommend the placing of a limit upon the amount of purely speculative interest that any one trader may have in the market at any one time. Convincing data have demonstrated that whenever a speculator attempts to buy or sell on the Chicago Board of Trade during a single day more than 2,000,000 bushels of any one grain future, prices are likely to respond unreasonably to such buying and selling regardless of fundamental conditions.

There is no authority at present in the Grain Futures Act for any specific limitation upon the amount of trading or of open interests of speculators. There have been times when individual traders have been in the market to the extent of over 10,000,000 bushels, one trader being "short" Chicago December wheat futures in September of 1926 as much as 12,545,000 bushels. Limitations upon trading could be imposed possibly by the exchanges themselves. Any move in this direction will be opposed by many members who are shaken with fear at any suggested innovation.

Publicity Feared

THIS "fear complex" has prevented the exchanges from undertaking on their own initiative many reforms which leaders in the grain trade have known for years to be sound and desirable. The membership of the Chicago Board of Trade, for example, stood out against the establishment of a modern clearing-house system long after the New York Cotton Exchange and even the smaller grain markets had adopted such a system. It was feared that the employees of the clearing association would learn too much about the business and the affairs of individual traders and firms.

Publication by the Grain Futures Administration of figures showing the daily volume of trading was opposed at first because it was thought that knowledge of a vastly larger trade in futures than in cash grain would tend to strengthen the view that the boards of trade were largely gambling institutions.

When it was first proposed to publish daily the amount of open commitments in the various futures, some thought that the end had surely come. These figures now are eagerly sought and are considered a valuable addition to current grain statistics.

There still is considerable sentiment to the effect that trading in grain futures works to the detriment of grain producers in affording unnecessary opportunity for speculators to make a drive on prices at times of heavy marketing. This is evidenced by the serious consideration given by Congress recently to bills to prohibit "short selling."

Public Interest Paramount

THERE is need, no doubt, for strengthening the Grain Futures Act in some particulars, but conditions have been improved in numerous ways over what they were in the past. While erratic and seemingly unnecessary price fluctuations have occurred since the law went into effect, the conditions producing them have on various occasions been foreseen by the administrators of the law and steps taken to prevent bad situations from developing or to modify their effect.

The Grain Futures Act has strengthened in many ways the position of the exchanges with respect to future trading. It has served to improve greatly the legal status of futures contracts in states where anti-gambling laws formerly had been applied to invalidate all obligations growing out of dealings in futures. The Grain Futures Administration, which organization within the United States Department of Agriculture handles the details of administering the law, has brought to light much valuable data and information not available heretofore and through the publication of unbiased statements regarding exchange activities has done considerable to dissipate misunderstanding and distrust in regard to these mat-

ters. On the whole, the attitude of the government has been one of friendly interest and desire to improve the facilities for trading.

One of the best fruits of regulation is that responsible grain exchange officials, as well as members generally, are coming to see that misunderstanding and distrust breed mostly in dark places and that where the public interest is concerned they fare best who are the least disposed to hide their affairs from public scrutiny. Congress, supported by the United States Supreme Court, has declared these markets "to be affected with a national public interest." That this interest is of paramount importance and one to be guarded above all others must not be lost sight of if the exchanges are to grow in the public estimation and in the quality of economic service they may render.

Capital in Canada

(Continued from page 1106)

annual value of nearly $4,000,000,000, and a physical volume 50 per cent greater than at the peak of war-time activity, exports over 40 per cent of her manufactures, and ranks seventh among the industrial nations.

The high state of efficiency in American industry has been a subject of world-wide interest. Canada and the United States have many things in common; the experience of one is easily available to the other, and, therefore, it is but natural that Canadian industry should adapt many of the most valuable practices in the American organization, the extent of which may be judged by comparing the value added by manufacture per employee in the United States, about $2,740, with that in Canada, $2,600.

In other words, the costs of converting raw materials into finished products are about the same in both countries, a fact which in the case of Canada may be regarded with justifiable pride, for she has practically reached the level of a country known to employ the most efficient methods in manufacture.

A Billion of American Capital Invested

MENTION has been made of American participation in Canadian industry. This has been due to two factors: first, the attraction of an expanding market afforded by nearly 10,000,000 people with a high standard of living, and, secondly, the advantages to be gained by manufacturing in Canada for that vast market within the boundaries of the British Empire. In connection with the latter feature, it should be explained that, as a result of preferential treaties throughout the British Commonwealth of Nations, goods made in Canada enter a number of the component countries free, or at lower duties than those charged on what are called foreign articles. It is estimated that about $1,000,000,000 of American money is invested in over a thousand factories and mills throughout Canada, including branches of such concerns as General Motors, the Ford Motor Company, the Gillette Safety Razor Company, the Firestone and the Goodyear tire companies, and the International Harvester Company. It may be taken for granted that this large fund of capital has been profitably engaged; otherwise it would have been withdrawn.

Industrial activity in Canada is centered mainly in the provinces of Ontario and Quebec, the former occupying first place. However, each has geographical and other advantages for certain lines of industrial operation. All the automobile manufacturing plants and most of the allied industries are in Ontario. This province also leads in the steel fabricating and machinery trades, in woolen and flour mills, and in rubber and furniture factories. Quebec has the largest number of pulp and paper mills and is the chief cotton-milling, shoemaking and tobacco manufacturing section. The Maritime Provinces, Nova Scotia, New Brunswick and Prince Edward Island, have some important industries, the first-mentioned possessing the largest primary steel plant in Canada and the most extensive fish-curing facilities in the eastern part of the country, and New Brunswick some of the greatest lumber and pulp mills on the continent. An interesting development of recent years is the spread of industrialism to the prairie provinces, Manitoba, Saskatchewan and Alberta, main-

ly as the result of the present-day practice of merchants in purchasing in comparatively small quantities, although cheap power and the natural growth of manufacturing and distributive services are contributing causes. British Columbia is noted for its lumber industry arising from that famous forest area extending along the Pacific Coast of North America, of which it is actually part.

8000 Manufactured Articles

MANUFACTURING in Canada is not, as is usually the case with a young commercial nation, confined to a few products, but is as well diversified as in most of the older countries. The Canadian structure is made up of over 23,000 establishments, which turn out about 8000 different articles. The main groups were classified in 1925 as follows, but there has since been considerable expansion, as may be judged by the fact that within the last year and a half over 200 important extensions have been added to existing plants and more than 100 new factories have been erected. (See table on this page.)

The changes which have affected world industry have been felt in Canada, and so we see the woolen, cotton and steel mills, and, until recently, the lumber manufacturers operating under difficulties, though these are less severe than exist elsewhere. In some quarters it is claimed that as Canada is now a comparatively low tariff country, being one of the very few to reduce duty rates during the past decade, her manufacturers are handicapped. But losses that may have been incurred in some directions have been overbalanced by outstanding progress in the newer forms of manufacture, notably newsprint, chemical, automobile, and rayon.

The Canadian industrial structure includes mills that furnish over one-third of the newsprint used throughout the world; a metallurgical plant, which is said to be the largest of its kind; an aluminum plant, already one of the greatest in the world, which has been planned eventually to be eight times its present size; and flour-milling and rubber manufacturing facilities that are the fourth largest on the globe. Rubber, cotton, natural silk and cane sugar, products which are not indigenous to Canada, are being imported for processing in ever-increasing quantities and bulk quite largely in Canadian manufacture, but its strongest support is an immense range of natural wealth in agricultural lands, in wood, and in minerals, including one-sixth of the world's known coal reserves, combined with extensive water powers, labor conditions as nearly ideal as seems possible, and a great fund of capital, experience, and enterprise.

What has been accomplished by Canadian industry appears to mark the beginning of a new greatness. Industrial science has demonstrated that natural resources such as those possessed by Canada provide elements which are among the most valuable for industrial purposes. The world has to find food each year for an increase in population of about 50,000,000, and there is a growing tendency to ship it in prepared form; wood can be used in twice as many ways as the 2000 in which it is now employed; coal promises to be the basis of many new chemicals; and electricity is not only power but in certain operations, such as the manufacture of cyanide, aluminum and abrasives, it is practically raw material. Considering these facts, the future of industrial Canada looms up brightly in the economic landscape of the business nations of the world.

	Establishments	Capital	Cost of Materials	Gross Value of Products
Vegetable products	4,558	$439,490,764	$404,684,887	$632,211,264
Animal products	4,892	210,015,438	315,914,684	431,778,163
Textile products	1,640	305,776,409	193,238,560	337,188,684
Wood and paper	6,652	907,204,530	246,551,591	557,194,453
Iron and its products	1,075	567,912,477	206,337,132	411,378,640
Non-ferrous metals	378	181,600,227	74,068,260	159,770,026
Non-metallic minerals	1,191	239,823,825	65,278,752	144,248,592
Chemicals and allied products	510	126,483,348	56,299,219	112,906,746
Miscellaneous industries	1,435	830,002,963	25,292,323	161,868,747

Letters That Are Dangerous

(*Continued from page* 1109)

in its letter of introduction, "should Mr. ——— desire to draw on his account with us, his checks will be promptly paid on presentation," or words to that effect? It means exactly what it says, and any court in the land probably would interpret it to be a bona fide guarantee to pay any amount within reason. The facts are, it means even more than that. It means that the holder is authorized to draw any amount at any time—today, next month, next year, or five years later, when his account may have been closed, and his credit line cancelled.

Banks are not required by law to issue letters of introduction. It is a service which a bank can render or decline as it believes will serve the best interest of all parties concerned. Ordinarily it should extend this service, but only to persons entitled to it. Because a person has an account does not necessarily entitle him to a letter of introduction carrying with it the privilege of cashing personal checks. There are thousands of irresponsible persons who have bank accounts, and other thousands who are honest and well meaning but because they lack that moral stamina so necessary in resisting temptation to overdraw, or because they use poor judgment, they are not entitled to credentials.

The Right Way

A PLAN which merits adoption by every bank in America is as follows:

First, ascertain from the customer the principal cities he will visit in his travels, and also whether or not he will likely need to replenish his cash supply at all or at a number of these points only. Select a bank in each of the cities where he will need additional cash, and write two letters addressed to each bank. The first letter should be written in an abbreviated form and given to the customer; the second letter containing valuable information should be mailed direct to the bank addressed.

The letter which the customer carries with him should contain as few words as possible, without appearing to be too abrupt. Omit from it a specimen of the customer's signature and all reference as to the purpose of the letter. In other words, abbreviate to the extreme as a means of obscuring the real object to be attained. Should the customer lose his letter, or should it be stolen from him, the letter, not disclosing the purpose for which it was written and not showing the signature, becomes a useless piece of paper in the hands of a criminal.

Instead of abbreviating the second letter, which the issuing bank mails direct to the bank addressed, it should state the purpose of the letter, and provide suitable means of establishing the identification of the presenter beyond a shadow of a doubt. A specimen of his signature should always be enclosed. This letter should be written on a bank's letterhead, dated and signed by an officer whose name appears in recent bank directories. Too often introductory letters are thoughtlessly signed by new officers. Imagine the predicament in which this places the bank addressed. It checks up on the signer's name in a bank directory and finds no such officer listed therein, and naturally the absence of the name instantly arouses suspicion as to the genuineness of the letter.

In the letter mailed direct to the bank addressed, the maximum amount for which the signing bank pledges itself to pay should be stated definitely, also a future date when the guarantee is no longer binding on the signing bank, thus limiting the guarantee. The amount of this guarantee should also be noted on the depositor's account record.

A few specimen letters are given by way of example:

To Be Given to Customer

Centerville, Ohio,
April 15, 1929.

First National Bank,
Blankville, California.
Gentlemen:
This letter will introduce to you Mr. James B. Storey, a valued customer of this bank.
It is on our recommendation that Mr. Storey is presenting this letter.
Yours truly,
H. B. Cook,
Vice-President.

The simplicity of the above letter commends it. It introduces Mr. Storey without identifying him and without disclosing what business he intended to transact. A crook finding or stealing such a letter would not know how to use it successfully.

To be Sent to the Bank

Centerville, Ohio,
April 15, 1929.

First National Bank,
Blankville, California.
Gentlemen:

We have supplied Mr. James B. Storey with a letter of introduction to you.

He is a man of unquestioned integrity and responsibility. He is the senior member of one of our oldest law firms, the firm of Storey, Beecher and Crandall. He is past sixty years of age, and his hair is gray.

Should he draw on his account with us within six months from the date of this letter, you are authorized to honor his checks aggregating up to $5000.00.

As a means of identifying him, a specimen of his signature appears on the enclosed card officially certified.

Any favors which you extend to Mr. Storey will be appreciated.

Yours truly,
H. B. Cook,
Vice-President.

Here is a letter to use where the person being introduced is believed to be honest but of very limited financial resources:

Centerville, Ohio,
April 15, 1929.

First National Bank,
Blankville, California.
Gentlemen:

We have supplied Mr. John H. Carter with a letter of introduction to you. He is a man of good character. By trade he is a barber. He has carried a small account with us for a number of years, and we have lent him small amounts on a secured basis, his income and net worth not justifying an unsecured line with us.

Should Mr. Carter offer you his personal check on this bank in excess of $50, we recommend that you take it for collection. If his needs for a larger amount of cash are pressing, suggest to him that he wire us.

As a means of identification, a specimen of his signature appears on the enclosed card officially certified.

Any favors which you extend to Mr. Carter will be appreciated.

Yours truly,
H. B. Cook,
Vice-President.

The man or woman who is fully responsible is entitled to a greater consideration than many of them are getting from their banks. Not only should a bank supply its responsible customers with an abbreviated letter of introduction to the bank addressed, but it should assure each of them that it is writing a letter of identification and commendation and sending it direct.

But the present wide-open methods should be discontinued. Old letters of introduction like old general powers of attorney are loaded with dynamite for the bank that accepts them. Both may have served the purpose for which they were issued years ago. Recently, a power of attorney was presented to me, with the request that the holder be permitted to draw against the funds of the principal. This document was five years old, and was drawn, dated, and signed in Texas. I declined to honor it and, later, I was advised that the principal had been dead several years, and it was valueless.

Give those whom a bank knows to be fully responsible letters of introduction along the lines suggested, and to those whose relations with the bank have not been satisfactory, sell traveler's checks, and you solve the problem of how to use letters of introduction.

Unfair Competition

(Continued from page 1110)

ing and loan associations in a great many cases has been well founded, as some of these associations in some jurisdictions have over-stepped their authority and have indulged in the practice of banking, receiving money on deposit and allowing it to be withdrawn in the ordinary channels of business, similar to the way that funds are withdrawn from the banks and trust companies, and by doing so they in effect become banks.

In some jurisdictions they have actually contracted to permit their stockholders to withdraw their funds on withdrawal slips or in other ways, which practice if continued and enlarged upon, would result in their becoming banks of deposit without complying with the protective laws thrown around banking institutions for the benefit of depositors. Generally, they are not required to carry reserves against their deposits. Therefore, they are enabled to loan 100 per cent of their funds. In some jurisdictions, they are favored by lower taxes and in some states they are entirely exempt from taxes.

Favored as they are by tax legislation and exempt from the strict provi-

sions of the banking laws that govern commercial and savings banks, these associations should not be permitted to indulge in the business of receiving and accepting deposits on demand or time certificates. If this privilege is granted to them or they usurp this right and actually indulge in this practice, then they should be required to comply with all the protective laws that are thrown around banks and trust companies for the benefit of the depositors of these institutions. I think I can say as a general proposition, that the building and loan associations of the country do not indulge in this open practice of receiving and accepting savings deposits and paying them out in the same manner as savings departments and banks are permitted to do. In such jurisdictions where they do indulge in this practice remedial legislation should be had to place the building and loan associations and the savings banks on a par when receiving and accepting this class of business.

Practical Cooperation

A VERY significant article showing the trend of the thought of building and loan associations in their effort to cooperate with banks in eliminating unfair competition appeared in the Building and Loan Digest of April, 1929, published at Oklahoma City, Oklahoma, as follows:

"Confusion in the mind of the public concerning the relationship existing between commercial banks and building and loan companies often give rise to the question: Can banks and building and loan institutions cooperate?

"Many regard them as competitive institutions. As a matter of fact, the two institutions operate in two entirely separate and distinct fields of endeavor, and do not attempt to render the same class of service.

"A commercial bank is an institution which accepts deposits payable on demand. It makes short-time loans on personal and collateral security. Its assets must be highly liquid.

"A building and loan association is in no sense a banking institution. It is an investment institution which does not accept deposits, but does accept investments, issuing to the investor shares of its capital stock. The investment is not withdrawable on demand and the money received from investors is loaned on real estate first mortgage security only, and for long periods of time.

"Substantially all building and loan association loans are made to home owners and are secured by first mortgages on the homes owned and occupied by the borrowers. Building and loan association loans are usually made for a period of eight, ten or twelve years.

"Every investor is a stockholder in the building and loan association, and shares in the profits of the business on a mutual and cooperative basis.

"Both the commercial banking institution and the building and loan association is needed vitally in every progressive town or city. Each has its particular class of service to render the public, therefore eliminating the element of competition."

Another example of practical cooperation between building and loan associations and banks comes from one of our Southern bankers, as follows:

"Our building and loan company and our banking institution have developed side by side. The building and loan has always occupied joint quarters with our banking institution. Every dollar that has come into our building and loan company has come through the same door that all the business of our banking institution comes through, and we have never had a conflict. We have never felt that the institutions competed with each other. On the other hand, we know that they have cooperated with each other and assisted each other in rendering better service to the community and thereby each institution has helped the other to establish itself on a stronger, surer footing than either could have done alone."

As bankers how are we to meet the competition of the building and loan associations? Shall we consider their business and ours as competitive or shall we consider it as complementary? Are we seeking the same class of business or are we seeking an altogether different class of business than the associations? To my mind, I place the banking business, and particularly the savings banking business on a higher plane than competitive to the building and loan associations. Banks render a fuller, broader and more complete service than do these associations and in a separate field.

A bank must be more than a mere place to make deposits and withdraw funds. It must render a financial service to the depositor that is of value to him. In the olden days the savings bank was content to allow its customers to accumulate their savings deposits without offering them the broader investment services that are now so necessary in the development of our business.

The economic revolution has brought other methods of finance and competition to the foreground. So, let me suggest methods which I feel must be adopted to stop false competition:

First: The savings banks and departments be protected with such legislation

as would prevent competitive building and loan associations from indulging in practices that are considered purely banking functions and strictly belong to the savings banks.

Second: That each of these agencies, namely: The savings bank and the building and loan association and other similar institutions recognize the fact that each has its own specific sphere of business activity; that they each serve customers in their own particular way, that the field of their activity is not competitive with each other, that each has a right to live, exist and do business in the community, rendering such services as each can do for the business and economic welfare of their respective clients and customers.

Third: Banks should carry on a consistent educational campaign directed to the public, explaining the advantages of establishing and building a savings account and the policy of the bank in offering the many services that banks can render now to their depositors along investment, estate building and trust lines. This educational campaign should be so conducted as to call to the attention of the public the fact that the service offered by the bank is a valuable service and one that cannot be obtained from any other institution; that the bank is not in competition with other investment agencies, but is rendering a service peculiarly its own.

This should establish our true relationship and solve the competitive problems—for we must be progressive. We have a great responsibility, the science of our business is better understood today than ever before. Yet we must lift the veil of unfaith, and teach the people the true ideals for which we stand. We touch intimately the life of the people of the nation. We know of the humble and simple wants of the individual just starting, we feel the pulse of industry and succor it by giving it a cornerstone of wealth upon which to build.

To Keep Loans Liquid

(*Continued from page* 1114)

jority of bank credit losses and conditions of frozen assets are the result of inadequate credit information, improper credit standards and careless or indifferent methods of credit supervision on the part of bank officers. Bad loans, made as such, are seldom deliberately made, but are the result of improper or insufficient credit information or unsound credit standards.

Many times loans become bad in a bank's note case simply because the banker neglects the credit line. He does not keep in touch with the financial condition of the borrower. The loan was once known to be good and is presumed to remain so. The evolution of bank credit losses many times reveals conditions of neglected credit information on the part of the bank management, resulting in frozen assets, failing business, insolvency and bankruptcy for the borrower and loans for the bank. Our system, if applied as outlined, will go a long way toward preventing these conditions.

The system I have outlined for analyzing note assets permits us to make another check of the business of our bank which we regard as of tremendous importance. The liquid credit lines in the note assets of our bank consist of all those notes included in classifications Nos. 1, 2, 3 and 4, and the total liquid resources of a bank, at the close of any day's business, are made up of the total of those notes making up the four classifications above noted, plus the secondary reserves of the bank (government, municipal and industrial bonds), plus the primary reserves of the bank (cash in the bank vaults and deposits in other banks). By comparing the grand total of all these liquid assets with the total deposits of the bank, the degree of the bank's business is accurately determined and this is the final analysis and comparison which reflects and determines the ability of a banking institution to meet its depositors' demands.

The system I have outlined, if intelligently and honestly applied, will determine the liquidity of the note assets of any bank. It is not to be expected that we will have 100 per cent conditions in the note assets of a commercial bank, but we should do everything possible to establish and maintain that condition. Frozen and undesirable credits will, in some measure, be ever present in our banking institutions, but in any sound, conservative, well-managed commercial banking institution, the total loans included in classes Nos. 5 and 6 can be kept within the amount of the bank's capital structure. To go beyond this limit is to involve depositors' funds.

Savings Accounts

(*Continued from page* 1118)

the profitable business in each contest was brought to the bank by directors, officers, department heads, and those employees whose duties involved relations with the public, while more than 90 per cent of the unprofitable accounts were credited to members of the staff whose tasks kept them behind the scenes.

Rather than attempting to make salesmen of bookkeepers, file clerks, stenographers, and telephone operators, the bank decided to concentrate sales education in those places where it would pay the greatest dividends. To this end there came into existence a new organization composed of officers and those employees who met the public day by day—the Contact Club. In its first year of existence six dinners were held, and thus six major departments were enabled to present the story of the services they render and to describe not only the way in which they could be sold, but also the sort of people who should be interested. Thus a bird's-eye view of the bank's products and their logical markets was spread before the men fitted to do the selling. We feel that in the Contact Club we have made a sound investment.

Each Man for Himself

AND now for another new departure which the bank has tried successfully. For years all contests had been held in March and April for a period of five weeks, so that we had adhered to the most popular form of this effort. In the fall of 1927, however, a three months' campaign was organized in honor of our president's tenth anniversary as the bank's chief executive. Directors, officers, and Contact Club members, who incidentally comprise about 25 per cent of the employees, joined together in an effort to add $10,000,000, that they might make a present of a deposit increase of $100,000,000 to the president during the decade he has led us.

Dinners were held once each fortnight, and at them the participants had various sales problems presented for their discussion, together with demonstrations of the solutions. There were no teams. It was a case of each man for himself. No bonuses were offered, nor were there prizes of any sort. It was a friendly competition between directors, officers and the Contact Club, all of whom were working together on terms of more or less equality to attain a common goal. The psychology of this relationship is excellent. It creates in the employees pride, self-confidence and a sort of "I have arrived" spirit.

In spite of the fact that the fall months are those in which Cleveland's bank deposits normally decline, in the face of other obstacles, imaginary and real, the participants in this campaign actually exceeded the goal by a substantial figure.

Then a new problem faced the bank as it entered 1928. A spring drive and the anniversary campaign during the preceding twelve months made it inadvisable to embark upon any further ventures of that sort until the public had had a chance to recuperate. Here was the time when necessity dictated a further variation of the employees' contest. Last year the officers and the Contact Club embarked upon a steady twelve months' campaign, in which each man was assigned an annual quota, subdivided into monthly units. The effort was well sustained for the first eight months. Thereafter it began to lag, not because of lack of loyalty or desire on the part of anyone, but rather was the slackening due to the fact that everyone had pretty nearly worked himself to the limit, temporarily at least. Final results on Dec. 31 were most gratifying. Without any other form of drive, deposits had shown a net increase of $12,000,000—a million a month, the rate at which the bank has grown since 1923.

Seven Suggestions

THUS we have run the gamut of all types of contests, and these conclusions are offered for the consideration of any bank about to undertake similar sales effort.

First it may be said that the short drive of four to five weeks is the easiest to handle, while the three to six months' campaign presents little difficulty. Employees' sales efforts extended over a longer period, however, are really hard to manage.

Secondly, the most direct route to success is found in the concentration

of sales education upon the officers and those employees who meet the public. This group in any bank is the one which is truly able to produce profitable business if properly coached and stimulated.

Next, determine exactly the point at which an account becomes an earning asset rather than operating liability. Local conditions, operating expenses, and the other factors entering into this problem are variable in character, so that there is no rule of thumb to provide the answer for you. Each bank must, therefore, settle this question for itself. Having arrived at a decision, however, it is a simple matter to concentrate attention of the staff upon desirable business.

Fourth in order of importance is the matter of bonuses and prizes. Where these are paid the schedules should be so arranged that they stress larger accounts rather than mere quantity. For the bank's own protection, disbursements should not be made except upon accounts remaining upon the books for six months at least.

The fifth suggestion worthy of attention is the elimination of unnecessary expense which normally arises in connection with the hip, hip, hurrah methods used by many banks to "pep up" employees. It is easy to sustain enthusiasm by other less costly and more sensible means. Use this steam to run the engine and not to blow the whistle.

Sixth, the fundamentals of the plan apply with equal force to banks of smaller size. The record made by our branches, none of which have more than twenty employees, prove this point beyond dispute.

Finally, while we have created the vehicles to dramatize our own campaigns for many years, it is not essential that this burden be placed upon a bank. Naturally it costs less if this is done by the bank, but it is an easy matter to purchase such material from concerns who specialize in employee contests. It is not necessary to hire experts to run a contest if a bank will use a little ingenuity and a lot of plain horse sense. However, if an institution wishes to do so, there are organizations which stand ready to serve in that capacity for a price.

The main thing is for a bank to get at least its share of business from the community it serves by any legitimate means at its command.

Statements Set New Standards

(*Continued from page* 1125)

closed by a financial statement, he can justify his actions to his board of directors and to the bank examiner. Even when a statement has been falsely made and the particular loan goes sour, he has a good alibi that he exercised due diligence.

Just another phase of the subject, and that is the benefit to the borrower. It is but a truism to say that the average small-town business man, as well as the farmer, is not a good bookkeeper. Whether or not he has made money over any given period is to him largely dependent upon the amount of money he has to his credit in the bank. He is not apt to take into account whether or not his inventory is larger or smaller than a year ago, or whether or not it has increased or depreciated in value. He may have been consuming the proceeds of his capital investment in the conduct of his business without being aware of the fact. In many instances the facts disclosed in his financial statement to his banker is the first intimation he has that he is actually running behind, or that his business is not being conducted at a profit; or if at a profit, upon too narrow a margin to justify the risk involved.

Debts a Surprise

NOT infrequently after completing the first statement, I have had a customer remark, "Well, I owe plenty, don't I?" indicating that the amount of his indebtedness was a surprise to him as likely it was to me. It was the first time he had ever listed his total liability and thus known of his actual financial position. If he was the right sort, he was immediately sold on the idea that he must work harder, reduce his expenses, and improve his condition. If he did not see this for himself, it was probably futile for me to point it out; and if it was in connection with a new loan, I refused it,

or if he already owed the bank, I asked him to pay or secure his existing indebtedness.

An experience occurs to me that happened back at the beginning of the deflation period. A young farmer was induced to go on to a bookkeeping régime of his affairs, and on an inventory basis rather than on an asset and expenditure basis. On January 1, 1920, he had invoiced his livestock and his grain and his equipment at the very high prices which prevailed at that time and which he was justified in using. By the end of the year the story was an entirely different proposition. Deflation had come and the bottom had dropped out of the markets, and the cattle and livestock generally had very little value. He brought the statement in to me a few days after January 1, 1921, and as I analyzed it I turned to him and said:

"The proceeds of your farming operations this year seem to amount to the large sum of $243.07."

He said: "That beats hell, don't it? I started out this year definitely with the idea that I was going to get out of debt. I haven't hired any men. My wife is helping me do the work. She and I picked 4000 bushels of corn this fall. I was going to buy a corn elevator, but I didn't and I shoveled that off."

"I see your statement here discloses the fact that you owe $1,100," I said.

"Yes," he explained, "that is that blank blank automobile."

"Well," I continued, "this is an automobile age and I guess you have to have an automobile anyway. This thing just means that you will be a year or two longer perhaps getting out of debt."

"Yes, sir," he agreed. "I might have been out of debt if I had left the new car alone and bought a Ford."

"That is all right," I replied. "You sold that idea to yourself. If I had to sell that idea to you it wouldn't have been nearly as valuable, but since you have caught the idea yourself I figure you are a perfectly safe bet."

So I say the making of a financial statement is often of as much value to the borrower as to the lender. However, the making of loans is not an exact science, and even with a correct financial statement before him the banker must be governed by his experience and the knowledge of general economic conditions, as well as by the personal elements involved, such as character, habits and disposition of the borrower. The statement is but an aid in the exercise of reasonable judgment rather than the hunch of the old-time banker or the mental reaction which may have been influenced by whether he was feeling good or grouchy on that particular day.

A statement rendered year after year serves more than the purpose of giving the banker a knowledge of the present net worth of the borrower. It is at least an approach toward the application of scientific methods in determining whether or not the customer is gaining or losing ground. Furthermore, it furnishes the opportunity for the banker to make comparisons upon which he is able to base intelligent advice.

Decision Against Guaranty Law

(*Continued from page* 1129)

through the police powers of the state now demand that the banks should be denied the right to waive its constitutionality? In other words, is not the public interest superior to any individual right? It may be conceded that the banks have taken advantage of the Guaranty Fund Law and reaped some profits therefrom but if the general public needs banks where its deposits are protected and where checks pass as currency, then those needs must be regarded as superior to any right to penalize the banks.

"The plaintiffs in their brief have effectively urged this position and I quote from it as follows:

"The question involved is of broader aspect than the individual and private rights of banks. Whether the law is constitutional is a question which concerns the public at large. It concerns the great mass of depositors in existing banks, who have a right to look to the strength of the banks and to the protection of the bank's rights under constitutional guaranties. The protection of the rights of the bank, by reason of the bank being a concern of quasi public character, is a public question. It is a matter of public concern and it is a matter of public welfare. This is due to the intimate relation that the bank sustains to the business and welfare of the state. The rule is stated in 27 R. C. L., p. 907, as follows:

"A waiver is not, however, allowed to be operative where it would infringe upon the

rights of others, or would be against public policy or morals. Where the object of a law is the good of the public as well as of the individuals, such protection to the state cannot, at will, be waived by any individual, an integral part thereof. The fact that the individual is willing to waive his protection cannot avail. The public good is entitled to protection and consideration; and if, in order to effectuate that object, there must be enforced protection to the individual, such individual must submit to such enforced protection for the public good.'

"This rule of law is of quite general application. Under it a minor has been denied the right to waive the requirements of an eight-hour law because that law is in the nature of a state police regulation. Its object is the good of the public as well as the individual. The state, in this manner, has intervened in its own behalf. The protection of the state cannot at will be waived by any individual, an integral part thereof. The fact that the individual is willing to waive his protection cannot avail. The public is entitled to be protected under the terms of the law.

"Another class of cases that come within the purview of the rule here invoked is an attempt to waive the exemption provision named by statute in connection with heads of families. Public policy says that such waivers in notes are contrary to the rights of the public as well as of the individual, who therefore cannot be allowed to waive them.

"It would be a most inequitable rule of law which, acting through the police power in the interest of public welfare, after being used to save the life of an instrumentality of government could not after that instrumentality had become an evil and no longer contributed to the public welfare, then withdraw the breath of life that it had earlier contributed.

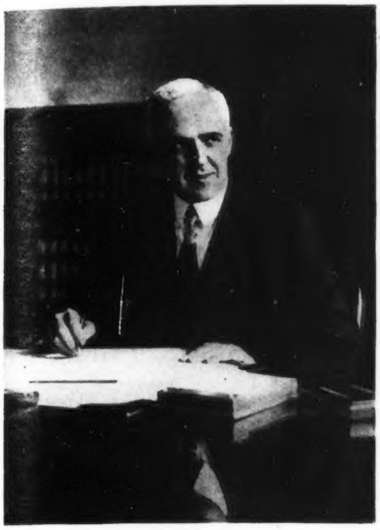
"What is the condition of the Guaranty Fund at this time? Justice Holmes in his opinion in a way apologizes for the taking of any property of the banks for the purpose of making good the deficiencies of another bank. But he justified it on the grounds that there really was no taking as the Guaranty Fund would be replenished in the end out of the assets of the failed bank and thus those contributing to the depositors' fund would receive back what remained. He also argued that the plan was a scheme of mutual protection for the banks which furnished a sufficient compensation for the correlative burdens assumed.

"How has Justice Holmes' conception worked out in practice? And what was the condition of the Guaranty Fund on December 31, 1928? A reference to a table prepared by the Guaranty Fund Commission giving the assets, liabilities and expected realization of the banks under its jurisdiction as of December 31, 1928, gives us the information we need. The total liabilities of the failed banks are $26,400,282.76. The Commission expects to realize out of the assets of these banks $10,451,932.65. Therefore, the deficit is $15,948,350.11. Of course, the amount that may be realized from the assets of the defunct banks may be more or less than the ten million estimated. However, these estimates are based upon the experience of the Commission in handling assets of failed banks in the past and doubtless Secretary Peterson has made a fairly careful estimate.

"The foregoing figures do not take into consideration the condition of the going banks which was discussed in the earlier part of this memorandum. It is quite evident from that discussion that unless some relief is granted the Guaranty Fund, this deficit of fifteen millions plus will be increased rather than decreased, even though all assessments now provided by law are continued indefinitely. We certainly can expect when the real condition of the Guaranty Fund is known to the depositing public that deposits in state banks will diminish just as they have increased under the more favorable conditions in the past. This, in turn, will result in lessened returns to that fund.

"The Guaranty Fund, under the conditions existing, is no protection to the present day depositors. As a matter of fact, it is a burden to the banks and just to the extent of that burden makes them less able to meet the demands of their current depositors by keeping their banks solvent."

The Nebraska guaranty law has been an experiment. From the tenor of Judge Frost's decision there can be little doubt that the experiment has proved a failure. The clear-cut reasoning of the decision should be a difficult stumbling block for advocates of this type of banking legislation in other states.



James A. Broderick, new superintendent of the State Banking Department of New York, who has undertaken a reorganization of his department

Safeguarding Security Yields

(*Continued from page* 1130)

has all this got to do with the liquidity of the banks and the yield of securities that they hold, which are of a different type than those discussed in the preceding paragraphs? To these investments the banks hold the senior securities in their files and they are definitely affected as to their marketability and their worth by the confidence expressed by the investing public in the junior securities. The banks also hold many of these in their files as collateral to short time loans which form a part of the banks' liquidity. That there should be a reasonable amount of bank funds invested in securities which are easily marketable, after setting up the proper reserves in cash or in reserve deposits, is not disputed by the conservative banker.

James Stillman, of the National City Bank of New York, during the stringency of 1907, had a gold reserve of 40 per cent, and it carried him through with added glory to himself and power to his institution. When asked for his reason for such an enormous reserve, he said that he received his education in the conservative school of Moses Taylor, whose formula was: personal control, silence and ready money. Mr. Stillman all through his banking career was a believer in enormous reserves, and as late as 1911 he had what is known as three lines of reserves: first, $60,000,000 in cash; second, $75,000,000 of call loans, and third, $35,000,000 in marketable bonds—this in a bank with $203,362,604.53 in deposits and resources of $265,845,697.85. If he thought this was necessary then, I am sure that in order to run a bank conservatively, it is reasonable to ask bankers to carry a reserve of 40 per cent in cash, bank deposits and marketable securities regardless of yield.

The First Question

IT is up to the banks to regulate their overhead by service charges and interest payments so that they can meet the yield that the public sets on these securities. Accounting systems must be instituted in banks that will show what their costs are. Manufacturers have instituted such systems. In fact, they could not exist and prosper without them.

What is a banker's first question in considering a loan? Is not his first inquiry, after he has examined the statement as to the relationship of current assets to accounts and bills payable, what are the net earnings? Are the costs figured correctly?

The strongest argument I know in favor of a good liquidity in banks is the experience of certain states. A commissioner in one of these states which has had a great deal of difficulty with its banks, told me two years ago that with all their troubles they had not closed a single Class A bank, and by a Class A bank we mean a bank with at least 40 per cent liquidity, surplus equal to capital, good earning power, etc.

That the public will use good, sound banks is definitely evidenced by the 1927 report by the Ninth Federal Reserve District. In that district there were 142 bank failures during the year, these banks having total deposits of $33,000,000, yet in that same year the total increase in deposits in banks in the district was $46,000,000.

A bank must have liquidity in order to operate conservatively and properly protect the depositors. That it cannot control the yield is also evident. The bank must, therefore, adjust its costs to meet the yield on the investments it holds by an efficient accounting system and an adjustment of interest rates on deposits when necessary.

Fiduciary Directory

A DIRECTORY of corporate fiduciary associations has been issued in pamphlet form by the Trust Company Division of the American Bankers Association. Nine new associations have been organized during the past year, making a total of forty-nine in the United States, it is stated in the foreword. Twenty-nine states and twenty-five cities are represented in this total. There are eleven state associations, eleven sections or divisions of state bankers' associations, two sections or committees of clearinghouse associations, three county associations and twenty-two city associations.

Convention Calendar

Date		State Associations	Place
May	....	Rhode Island	East Providence
May	14-15	Mississippi	Biloxi
May	14-16	Texas	Galveston
May	15-17	Pennsylvania	Atlantic City, N. J.
May	16-17	Missouri	Excelsior Springs
May	16-18	New Jersey	Atlantic City
May	17	New Hampshire	Manchester
May	21-22	Oklahoma	Oklahoma City
May	22-23	Maryland	Atlantic City N. J.
May	22-24	Ohio	Columbus
May	22-24	Kansas	Hays
May	23-24	Alabama	Montgomery
May	28-30	Georgia	Atlanta
June	6-7	South Dakota	Rapid City
June	10-12	Wisconsin	Milwaukee
June	11-12	North Dakota	Minot
June	12-15	California	Sacramento
June	13-14	West Virginia	Bluefield
June	14-15	Connecticut,	Swampscott, Mass.
June	14-15	Massachusetts	Swampscott
June	17-18	Oregon	La Grande
June	17-19	Minnesota	Minneapolis
June	17-19	New York	Toronto, Canada
June	18-20	South Carolina	Greenville
June	19-21	Illinois	Aurora
June	20-21	Kentucky	Paducah
June	20-22	District of Columbia	Montauk Beach, L. I.
June	20-22	Maine	Poland Springs
June	20-22	Virginia	Old Point Comfort
June	20-22	Washington	Spokane
June	21-22	Colorado	....
June	21-22	Utah	Logan
June	24-25	Idaho	Idaho Falls
June	24-26	Iowa	Des Moines
June	24-27	Michigan	Charlevoix
June	25-27	North Carolina	Asheville
July	19-20	Montana	Billings
Aug.	30-31	Wyoming	Lander
Sept.	11-12	Indiana	Evansville
Nov.	8-9	Arizona	Phoenix

Date		Other Associations	Place
June	10-14	Reserve City Bankers	Detroit, Mich.
June	10-14	American Institute of Banking	Tulsa, Okla.
June	14-15	New England Bankers	Swampscott, Mass.
Sept.	30-Oct. 3	American Bankers Assn.	San Francisco, Cal.
Oct.	7-11	International Thrift Congress	London, England
Oct.	30-Nov. 2	Financial Advertisers' Assn.	Atlanta, Ga.

SAVINGS BANK DIVISION REGIONAL CONFERENCE

April 25-26 San Diego, Cal.

The JOURNAL group subscription plan will spread useful information among the members of the bank staff.

Restrictions on Savings Deposits

(*Continued from page* 1122)

imately $600,000,000, most of them paying a dividend of over 4½ per cent. Of these, thirty-two banks with deposits of $286,000,000 report or favor restrictions and forty banks with deposits of about $340,000,000 do not impose or favor them.

Reasons Cited

SOME of the opinions of the restricting banks are briefly as follows: First are given the restriction in force and then a reason or two for the imposition of the restriction.

Restrictions as to amount, even locally.

We feel this will best serve our town and keep the rate up to 5 per cent.

Restrictions as to amount in territory outside twenty miles from location of bank.

We have refused many large deposits coming from parties having no real interest in our bank whatever except the rate we pay. We feel our bank is a local institution and do not feel we should accept this investment money.

Limit both as to amounts within and without metropolitan Boston.

Since 1928 this bank has not accepted deposits of more than $1,000 from people living outside of metropolitan Boston and we receive but $3,000 on individual accounts and $6,000 on joint accounts from people living in metropolitan Boston.

Limited as to the community.

Since 1920 this bank has paid 5 per cent on deposits. This is because we have refused to receive outside deposits during the periods of easy money. This bank was chartered for this community. Its present surplus is built up by old depositors living largely in this community.

Restrictions as to amount—not locality.

Had we not done so, and had we continued to increase, we probably would have been unable to continue a 5 per cent dividend.

No limit as to amount—limit as to locality.

This bank was organized by local people for the benefit of the residents of this community and is trying to keep on conducting it for the same purpose.

Restrictions as to locality.

Unquestionably if we had taken all deposits offered from a distance it would have had some effect on our 5 per cent rate.

Limitation only as to area.

This bank was primarily established for the purpose of encouraging thrift in its own territory and could hardly be expected to offer facilities for a much larger area.

Restrictions as to area.

We feel that our first duty lies to the people in this territory and we know that we can pay a higher rate of dividend by limiting our new accounts to the cities and towns immediately surrounding.

It is the duty of a savings bank to its present depositors and to its prospective small depositors to impose limitations as to the amount of funds which it will receive on old as well as new accounts when its growth is so rapid and investment conditions are so unfavorable that the acceptance of large depositors will entail a reduction in the dividend rate.

I do not believe that this is necessarily opposed to the interests of the community, because I believe that the best interests of the community are served when we focus our attention to small accounts. When it comes to large accounts I sometimes think we would be very much wiser administrators if we said a kind word for the trust companies.

Contrary Views

NOW to quote briefly a few of the opinions given by the nonrestricting banks:

It would seem under present conditions that it is up to the savings banks to receive deposits offered, especially as they have conducted state-wide advertising for deposits, doing the best they can with the money and paying as high a rate of dividend as possible after carrying a proper amount to reserves.

The day when the savings banks are used by the small wage earners alone has gone by.

It is the opinion of our executive committee that we should accept deposits where and whenever offered and to date we have never found it impossible to invest our money advantageously.

Strongly in favor of accepting money whether or no.

We have spent a lot of money advertising for deposits. Why, because of temporary inability to invest the funds to advantage, should we refuse to accept the money? It seems to me it places us in a very undesirable position before the public.

It does not seem to me that we should refuse deposits because by accepting them we would be obliged to reduce the rate of interest paid on present deposits.

I think mutual savings banks cannot expect to make the progress which they are entitled to make by accepting or refusing to accept deposits in accordance with the conditions of the money market.

Certainly no other class of banks that I know of refuses money at any time.

We have never placed any restrictions. I should dislike very much to see the time come when our trustees would place a limit on the amount of money which we could take.

It is the unanimous opinion of the officers of this bank that deposits should never be refused. We have tried to teach thrift and so feel that we may not consistently restrict deposits.

We have never made any restrictions as to accepting new deposits offered as to amount or in any locality. We have also been of the opinion that it does not look well for us to one year go to the Legislature and ask that the increase in the amount that we can take on deposit be raised from $3,000 to $4,000 or over, and then within a year or two simply because conditions have changed a little and it becomes a little harder to invest money and there is a little larger surplus of money coming in that we should lie down on the job and turn the doors against the people who desire to make deposits with us.

It is our opinion that our proper function is to accept whatever deposits are offered to us regardless of the limit of the rate that those deposits might force us to take.

For my part, I think the matter of rate on deposits is secondary and that the whole matter tends to adjust itself. Unless, therefore, the maintenance of a level dividend rate is held to be paramount, the bank has no problem other than the proper investment of whatever funds come to it, but after all the rate of return is not theoretically the most important factor in savings accounts. Savings banks were created for the purpose of serving the public and the public, in our opinion, is anyone who patronizes our institution.

Our policy is to receive all accounts offered up to the limit.

It would seem inconsistent to decry competition and then refuse to accept the very thing we are trying to protect. It would seem as though the investment trusts, together with the savings departments of trust companies, would soon take up the slack and those who have confined deposits to their local field might find themselves slipping badly.

We realize that we are being used by men out of our district who are well able to invest their own money, but these are decidedly in a minority.

It is clear that the differences of opinion as regards restrictions resolve themselves into the question whether a mutual savings bank's first duty is to its present depositors and its own community or to the public at large.

Like Class Legislation

THERE is no question but what the trustees of any mutual savings bank are legally justified in taking any action which they deem proper in connection with the operation of their institution so long as the law is squarely lived up to, but it seems to me that there are many phases of this subject which the larger and more influential savings banks with state-wide reputations might well and thoughtfully consider from the standpoint of public policy before taking a restrictive attitude.

There being no stockholders, we ordinarily speak of a mutual savings bank as belonging to its depositors. It does belong to the depositors in the sense that if it were to liquidate, the proceeds of all the assets sold would be distributed ratably amongst the depositors, but as a going concern the only real ownership which a depositor has in addition to his account, and ratable claim on the assets in the event of liquidation, is the right and ownership in his portion of the earnings of the bank as they may be distributed according to law. He has no right of ownership that morally justifies him or the trustees to say that, from a given date onward the depositors because they happen to be such on that particular date, have a right to be constituted an exclusive and favored group and that the rest of the public may not become associated with them as depositors, except under restrictions imposed by the trustees of that bank, whose duties, responsibilities and obligations in the last analysis are to the public as well as to the depositors. Such discrmination is much like class legislation and is just as unfair.

Mutual savings banks cannot afford to adhere to self-imposed restrictions which if they have any excuse at all for existing should be imposed only by the small bank in rural communities.

Mutual savings banks do not expressly or impliedly guarantee the payment of a definite rate of dividend, and it seems to me if they would but forget restrictions, accept money as it comes from the public, and do the best they can with it, the whole matter of rate would tend to adjust itself, for after all, rate of dividend is not the most important phase of savings bank operation.

Loans to Merchants

(*Continued from page* 1126)

means of transportation make the goods available. Almost any man in the country can get his goods in five days now. The progressive merchant today buys from week to week and day to day, gets the goods in by express to meet the changing tides of fashion of the buying public. If the merchant bank customer has too heavy a turnover and that inventory is not intelligibly related to his turnover, it is just too bad.

The bank should get into his accounts receivable, too. They ought to be selling on credit of thirty days' time. How much does he have beyond forty-five days' credit? I am talking about those that the banks need to analyze, whose statements the banks need to study and get into the facts.

None of the banks now are justified in not being able to analyze scientifically a customer's statement, or to have somebody in the bank who can do it. Any

bank today with a minimum outlay of money would be able to have somebody in the organization who knows how to analyze these statements intelligently and scientifically. That is what needs to be done.

You cannot always tell when you get these auditors' statements. I was surprised to find a reported failure down in the Southwest last year, with a fine statement, fine ratios, fine history and all. But the same firm of auditors had been auditing this concern for a number of years and there had been fine ties of friendship formed between the officers and the auditors, and so the officers were able to conceal a great loss over seven years in obsolete stock. It would be a fine thing if the banks could suggest and insist on the rotation of auditors now and then.

I THINK the major problem in American business today is producing goods and service at less cost, because the line of profit is getting thinner and thinner in every way, every day. The merchant who does not have some satisfactory cost control of his picture is definitely in the discard. Unless he knows what lines he can handle profitably and which are his profitable lines, and center on those and cut out the unprofitable lines, just like the intelligent bankers up and down the line are doing, he is gone—he is done for.

The merchant who does not maintain with his bank adequate balances against his borrowing lines is a bad credit risk. The bank needs, of course, to make the account profitable, but the merchant needs it just as badly as the bank does, and the argument about balances has its foundation in the borrower's needs rather than the banker's desire for a profitable account.

In the case of a wholesale house down in the South, last year's operation showed $20,000 loss, but because his cash position was good and he was able to take throughout the year every sort of discount that was offered him, his discounts coming in under sources of income enabled him to show a decent profit on his capital stock.

Salary Loan Movement Spreads

(*Continued from page* 1121)

thorough investigation should be insisted upon. Borrowers, like the rest of humanity, are impatient at delays. In days of old when a man missed a stage coach he settled down and waited patiently for the next one, due to arrive three days later. Today he gets into a towering rage if his street car is a second late, or if he even misses one section of a revolving door.

Does It Pay?

BANKS that have conducted a small loan department report that the idea generally has worked out successfully, with comparatively little trouble in collecting the principal. For instance, the survey referred to showed that thirty-two banks seldom found it necessary to disturb the endorsers, four said they never had, and eight that they had, in a few cases, been compelled to ask the endorsers to make good.

The one big test of the "Industrial Loan Plan," whatever may be its method of operation, is: Does it pay a profit? Many banks in the survey were hesitant about answering this question, but forty-three of them replied that the plan is profitable, while only ten reported adversely. One bank that has a large volume of small loan business reported its losses at a rate slightly more than 1/10 of 1 per cent, which compares very favorably with commercial loans.

As to whether the plan has brought an increased number of depositors, twenty-nine said "Yes" and twenty-three "No." However, it would seem that this development would depend largely upon how this plan is operated. The plan of the National City Bank in New York, for instance, compels the borrower to take out a pass-book and sign an agreement to deposit so much money in the compound interest department each week or whatever period is agreed upon, these deposits to go toward repayment of the loan within a specified period.

The applicant is required to sign a

promissory note which sets forth the details of the agreement entered into between him and the bank. In addition, an application blank is filled in giving such details as home address, telephone number, salary or other compensation, or income, whether married or single, name of employer, position, whether applicant has other loans, what they are, whether he has borrowed from this bank before, what life insurance he carries, and other questions which will tend to indicate his character and ability to repay the loan. The co-makers of the note, likewise, must supply similar details so that enough information is obtained to safeguard the loan in the event the borrower fails to make good. No loan should be made on the basis of collecting from the endorsers.

Uses Coupon Notes

SOME banks attach the provision to the loan that in case the borrower should die or become permanently disabled before the loan matures, the co-makers and the family of the borrower will not be required to pay the unpaid amount, this being taken care of by insurance provided by the bank without cost to the borrower.

One banking institution in Richmond, Va., has a rather unique plan of having the borrower sign a series of ten "coupon notes," calling for repayment of the loan in equal installments. In this way the bank avoids the necessity of keeping individual ledger cards, and this does away with posting the many small payments, a feature which is said to add considerably to the profits of the industrial loan department of this bank.

No doubt the future will see a far larger number of banks creating industrial loan departments, for their operation results without question in a bettering of the local economic situation. Placing the borrower on a stable footing with the backing of a reputable institution, and eliminating the "loan shark" evil, brings about greater economic benefit for the entire community through insuring greater financial success and happiness for the individual who must obtain money to tide him over in times of adversity.

Probably in a majority of cases banks are equipped to handle this class of business on a more economical basis than the loan companies. In many cases the banks would not have to provide additional floor space and would need to add few employees. The profit would appear to be largely a matter of volume and good management.

Has Proved a Boon

WITH brokers' loans rising to stupendous totals and savings departments throughout the nation feeling keenly the loss of business that normally should go to them, it would seem to be a prudent move to establish a small loan business in connection with savings. In this way the borrower, through weekly or monthly payments, would form the habit of regular savings, and at the end of his repayment period should prove a valuable savings customer. Scientists tells us that an act repeated with regularity forty-five times becomes a habit.

The attitude of the banks toward the "little man" has not been entirely consistent. In the past they have received his deposit but have not provided him loaning facilities. This was due largely to the fact that small loans were handled on the same basis as large loans, and under such a plan the bank is not in a position to serve the small borrower satisfactorily and profitably.

The industrial loan plan which allows the borrower to pay his loan on the installment plan has proved to be a boon to the wage earner, salaried people and the small merchant. It will relieve the regular loan departments of many small loans and enable banks to handle the business on a more profitable basis.

There are prophets of evil in the country and there are prophets of good, but I think a man has a right to be an optimist and to believe that in the great forward steps that have been taken in this financial game America is being led into a world power financially and that the steps that have been taken will in the end, under sane American leadership, and with the wisdom of safe and sane American banking, all work to the good of America.—Eugene R. Black, Governor of the Federal Reserve Bank of Atlanta.

Within the Crescent

BANKERS from all parts of the country attending the Spring Meeting of the Executive Council of the American Bankers Association at Edgewater Park, Mississippi, were the recipients of the hospitality for which the Southland is famed. Both official and private entertainment was offered the visiting bankers.

On the evening of Monday, April 15, the entire party of visitors was entertained at dinner by Rudolf S. Hecht, president of the Hibernia Bank and Trust Company of New Orleans, at his estate at Pass Christian. The guests were received in the unique and picturesque garden of the estate—a bit of old Japan transplanted to the shores of the Gulf of Mexico. Strolling along the winding paths between exotic Oriental plants and over the tiny rainbow bridges which spanned the lily ponds the guests glimpsed through the shrubbery replicas of Japanese houses and pagodas. The scene, lighted by the soft glow of Japanese lanterns, was a picture of far Nippon. Dinner was served in the garden and was followed by dancing in the same setting, the music re-echoing from the bamboo hedges encircling the estate.

On Tuesday the council party enjoyed a boat trip to the Isle of Caprice, an islet some dozen miles off the coast of Mississippi, where surf bathing was to be had.

The family dinner of the Executive Council was held on Wednesday evening at the Edgewater Park Hotel with President Hazlewood as toastmaster. Charles Cason, vice-president of the Chemical National Bank of New York, gracefully and wittily awarded golf prizes to the men and women successful among the contestants on the links. Senator Pat Harrison, of Mississippi, welcomed the representatives of the American Bankers Association to the encircling shores and traced the rapid strides made in recent years by the South toward a position of prominence in the industrial and economic structure of the nation.

After the meeting at Edgewater Park most of the members of the council party were the guests of the New Orleans Clearinghouse Association for a day's visit to the Crescent City. Arriving in New Orleans at noon on Friday the party lunched, as the guests of the Clearinghouse Association, at the Tip Top Club, on the roof of the Hotel Roosevelt, overlooking the city of New Orleans and the swirling Mississippi River, dotted with ships from the seven seas. At luncheon the visiting bankers were welcomed to New Orleans by Maj. L. H. Dinkins, president of the New Orleans Clearinghouse Association, and taken in charge by Fred W. Ellsworth, vice-president of the Hibernia Bank and Trust Company, chairman of the entertainment committee, and a score of bankers and members of the New Orleans Chapter of the American Institute of Banking.

During the afternoon the visitors divided into groups and toured the city. One party in automobiles saw New Orleans and its environs, the massive levees and docks along the banks of the Mississippi River, the great industrial plants and thronged business district, the palm lined streets of the residential sections and the wide-sweeping, sunlit parks of the city.

Another party made a pedestrian tour of the Vieux Carré, the quaint old French and Spanish section of New Orleans where there still lingers among the historic buildings and ancient residences the visible memories of the earliest colonial days. Through the streets shadowed by the galleries of houses of another era the party glimpsed the cool patios, where the fountains play, and trod the walks that were the glass of fashion when New Orleans was young.

In the evening the council party were the guests of the New Orleans Clearinghouse Association at a banquet in one of the old French restaurants of the Vieux Carré, where the spirit and atmosphere of France pervaded the end of a bright day in the Crescent City.

Bankers returning from the Spring Meeting to their homes in the North and West carried with them a warm appreciation of the hospitality of the South.

Dramatizing Savings Accounts

(*Continued from page 1133*)

money remains in the bank undisturbed. But my own judgment is that the account that most closely represents the real purpose of the savings bank and that can be made of most far-reaching benefit both to the general good and to savings banks themselves is the account that is maintained by constant and consistent regularity of deposit and defined and designed as the instrument in the economic lives of men for the accumulation of capital for the ultimate and permanent needs of life. That is, the savings account.

I do not depreciate the importance of savings bank accounts for other purposes. In fact, I am confident that they are very desirable and essential, but the time has come when we should distinguish the savings account from all other forms of account, interpret it for what it is intended to be—an instrument for permanent saving—and make it function successfully in that capacity.

Somehow, I cannot escape from what to me is an impressive conviction; that is, that the savings account should be made the greatest single influence for the advancement of the permanent economic success of men, and the chief agency through which men strive for and attain the degree of economic independence which their stations in life may justify.

Dramatizing Accounts

IT has not been the practice in savings banks in the East to encourage multiple accounts. That seems to me to be directly opposed to the best interest of good money management. I think the most basic and practical application that savings banks can make of the budget principle is to encourage multiple accounts, each designed for the accomplishment of a specific purpose. We should define these accounts in terms of their purpose. Savings accounts, investment accounts, spending accounts, and what not. We should endeavor to take the drudgery and the monotony out of saving by dramatizing these accounts in terms of their accomplishments.

It will be common in savings banks in the relatively near future not only to classify accounts as to purpose but to pay interest on these accounts in accordance with their relative earnings and the cost of administering them. But more important than this, a classification of accounts as to purpose will provide the savings bank with a practical and vital sales argument and a more intimate point of contact between the bank and its customers.

When a customer comes into a savings bank to open a new account, he is a depositor only. Whether he is to develop his account into a savings account remains to be demonstrated. So far, he is only a prospect.

It seems to be true, but unfortunate, to my mind, that we devote our business promotion efforts almost exclusively to

securing new customers and do little to develop them into consistent, profitable customers when we get them. Another truth is, and this, too, seems unfortunate, that the savings bank up till now has sold itself to its own customers as a competent expert in only one department of the field of saving; that is, as a depository for funds. We have a very enviable reputation for being the safest place to put money but very little reputation as experts in advising people on how to save. The safety argument has been a great confidence builder for savings banks in the past, but the time has come when if we are to claim the confidence of people permanently we must qualify ourselves not only to safeguard savings but to intensify saving.

Moreover, I look upon this as the most practical and logical foundation upon which to build all the other financial services of the savings bank. Whatever other financial services savings banks may offer their depositors should be predicated upon and built around this fundamental need of consistent saving. We may need in our financial advisory departments competent advisors on investment problems, insurance, budgeting, and so on, but, first of all, these advisors need to be experts in the fundamental needs of saving money.

To whatever extent savings banks may go to educate people to a better understanding of their economic responsibilities, either inside or outside our banks, and I think they should go a great way, the justification for the spread of such education lies in the fact that we are promoting the fundamental business for which we exist, namely, to help men save.

Revitalized Savings

IT has been a long time since the savings banks have put a new product on the market for universal consumption. It may be time to bring one out. We have offered many new appeals to increase our business, and sometimes we have gone rather far afield from our main theme to find them. At the same time, it seems to me we have had within our grasp the facilities of the most potent appeal that the savings bank can offer; that is, the savings account itself, revitalized.

I realize that it is a great deal simpler to make a proposal that savings banks need a new product on their shelves than it is to prepare the product for public consumption and make it pay. In other words, I am fully aware that the practical part of such a proposal lies in the development of a plan for its accomplishment. But this is not something that one can sit down and dictate to a stenographer. It means a fundamental appraisal of the whole approach and appeal to our constituents. It may mean a new form of pass-book or contract. It may mean the interpretation of the savings account as a long-time plan of systematic saving. It may mean the injection of some commitment or an element of compulsion in saving. It may mean a preferred rate of interest for the accomplishment of certain objectives. It certainly should mean a concentrated effort to bring the savings account in its new dress to public attention in a vigorous and commanding way.

I have this one thing to say in conclusion; that if there is as much of human appeal and fundamental value in the savings account as I think there is, the ability and the skill can be found to dramatize it and to make it sparkle with new life and interest, and a plan can be developed for the accomplishment of its purpose that will appeal to the imagination of men.

And once this appeal has been obtained the public can be relied upon to respond with an enthusiasm that will repay thought and planning.

Regional Trust Conference

The seventh regional trust conference for the Pacific Coast and Rocky Mountain states will be held in Ogden, Utah, Sept. 25, 26 and 27, under the auspices of the Trust Company Division, American Bankers Association, and the Trust Company Section, Utah Bankers Association. A. P. Bigelow, president Ogden State Bank, will serve as general chairman of the conference.

Trust problems of particular interest to trust companies and banks in the states of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming will be discussed at the sessions by bankers and leading students of banking.

School Savings Stories

By CHARLES W. GARFIELD

Chairman, Executive Committee, Grand Rapids Savings Bank, Grand Rapids, Michigan

ABOUT the time that France demonstrated her wonderful ability to pay the enormous debt imposed upon her by the settlement of the Franco-Prussian War and had given to the world a marvelous demonstration of the value of thrift to national life, I took a bicycle trip through Europe, spending some time in going to and fro through France. I was deeply impressed by the habits which had been inculcated in the people for the fulfillment of the enormous obligation placed upon the nation by a victorious enemy.

I tried to look at the root of the demonstrated success, and while on every hand I saw the elimination of waste and the exhibition of thrift in small things, I learned that the French people had begun this work with the children and that the teaching of thrift in the schools had been made an important factor. And there I learned about the usefulness of the school savings bank in the educational system. I absorbed an idea that seemed to me worth carrying home to a nation of people engaged in the most wasteful habits on the face of the earth.

One illustration will suffice to indicate the type of my investigations. As my companion and I were riding along a country highway, we saw a girl of apparently fourteen years guarding a little flock of sheep in a pasturage. She sat on a rock with a book in her lap, and her fingers were rapidly engaged in manipulating a crochet hook fashioning a garment. We dismounted and gathered from conversation that she spent several hours each day in guarding the sheep for her father and the book was a textbook used in the school she attended, and she was preparing for the next day's recitation. She was crocheting a garment that when finished she could sell for five francs. The money earned in this way she placed in the school savings bank for future needs. It was an interesting object lesson in thrift as fostered in the scheme of education.

Directors Were Cool

I CAME home with a bee in my bonnet and began to investigate the educational methods of our country and learn if any special work had been attempted anywhere in the promotion of thrift through our educational processes. I found that J. H. Thiry of Long Island City had a couple of years earlier instituted a plan of school savings. Being a member of the school board and having clearly defined ideals concerning practical education, he had instituted in his little city the school savings bank plan practically based upon the French method of tuition. Through my correspondence with him I became more enthusiastic than ever and an optimist in hoped-for things.

I did not comprehend the job before me. I began with our own bank directors, using all the blandishments of oratory I could bring to bear upon them and the immediate result was that they did not feel that it was the province of a bank to enter the field of education; that a bank was a hardheaded business institution, instituted for the prosecution of business in the aid of business, that dividends might be made upon investment of its capital stock, and through serving the community, become an influential business institution. They argued with me that there were larger things for a bank to do of greater importance than saving pennies and having a great lot of petty accounts to take care of that would be a bill of expense rather than a source of income.

Steps of Progress

AT that time our board of education was a political body. The members were elected by wards, and the positions being somewhat attractive, the whole plan of carrying on the education of our city was mingled closely with party politics. Trying to convince a large board of this character that penny savings and the teaching of thrift was an important field for progress in education, was not a successful venture on my part. Fortunately, our cashier and the superintendent of schools were warmly sympathetic and we worked along for two years with indifferent success, when the thought came to mind that possibly we could induce both the bank and the school board to try an experiment with four schools.

Reluctantly, the opportunity was given and we made a wise selection of four primary schools which had women of vision as principals and teachers who caught the spirit of our thought and were willing to be factors in the experiment. Enthusiasm and wise publicity made a great success of this venture. So complete was the success that at the end of a three months' trial the board of education voted to place the plan in all the schools of the city.

My bank directorate began to be impressed with the value that might develop if this movement should be as successful over the entire city as it had been in the first experiment. In our steps of progress we met all sorts of objection, but the demonstrations of the wisdom of teaching children habits of thrift and in connection therewith giving tuition in business methods and particularly the details of doing business with a bank, made a deep impression. We answered successfully the objection on the part of many people that we were developing our children into little misers

by putting so great emphasis upon the hoarding of money. We connected with this saving an objective in the use of the money. In all our publicity I put the emphasis upon saving for a purpose, and when that purpose could be subserved, the money gathered could be spent with just gratification as a matter of education as the acquirement of the bank savings.

Startled Their Parents

OUR experience shows the importance of attaching an altruistic purpose to the tuition given in matters of thrift. We have garnered a rich harvest of incidents that, if they were to be used, could be of great import in the promotion of school banking. One of our children through earnings with her little hands acquired a considerable bank account, and we found that she had in mind her heart's desire—the acquirement of a violin. She had a taste for music, her people were poor and could not give her facilities for a musical education; but the thought of doing something for herself was suggested through the school savings bank. She is now a successful teacher of music and has a great reputation as a violinist. The initiative and impetus were given by the school savings bank.

A little family in our city found in the maintenance of the family obligations that the wage earner of the family could no more than meet the ordinary expenses of family maintenance. As a safeguard the head of the family had carried for some years life insurance. A stringency in the times resulted in the loss of his job temporarily. His life insurance premium became due and he had no means of meeting it. It was a matter of very earnest discussion on the part of the father and mother and a source of deep anxiety. The children heard these discussions, and for several years they had been gathering through the school savings bank, with little thought on the part of their parents, sums of money of which they were quite proud. Two of them, a boy and a girl, drew out their savings and it was an amount sufficient to meet the premium on the life insurance policy, and startled their parents by putting it in their hands and saying:

"Here are our savings, take this and pay the insurance money."

This tided over a very trying period, and upon the restoration of better times and renewed employment the family entered upon a period of prosperity. The children gradually became wage earners and the family, today in good circumstances, often refers to this incident as the most trying and the most important in their family life.

Brought Her Father In

SOME years after we had instituted the school savings bank system in our city, an acquaintance of mine came into the bank with a young lady. Inasmuch as he had never been a patron of the bank, as he carried his account in another institution, and I had never seen him in our corridor, I stepped forward and greeted him.

"I'm glad to see you," I said, adding, "have you ever been in our bank before?"

"No, I haven't," he replied. Then he explained that he was induced to come by his daughter who had a duty that she thought he ought to perform for her. In chatting with them I found that the daughter had started with the school savings bank as a little child and had saved money for the purpose of meeting the expense of a college education. This saving had come on quite largely through little gifts and earning methods that she had instituted, and when the decision was made to go to college, she had with some enthusiasm confided in her father the fact that she had a savings account and she wanted to pay her first year's expenses in college from her own savings. She had brought her father in to sign the proper check to draw out the savings which had accumulated for this purpose. To his astonishment the amount was something over $500.

"I am just as proud of you as I can be" he said to his daughter, "but I can't allow you to use this money that you saved by little sacrifices to pay for your college expenses. I am able to do that and I am grateful for the opportunity to do it. Keep your savings for incidental uses and I will exhibit to you my pride in what you have done by taking care of your college expenses with delight."

The thrifty daughter, however, insisted upon carrying out her original purpose, and I could see that it was one of the most interesting things that ever came into the life of that family.

A Lad in Grand Rapids

I WAS visiting some years ago in California and was invited by the University Club of Los Angeles to a dinner and something was made of the event in the paper. Just before we went into dinner a man came up to me and said: "I'm not a member of the University Club and cannot take a part in this function, but learning through the paper that you were here, I took occasion to come and just greet you and say in a word that I was a lad in Grand Rapids when you started the school savings bank and was one of the first to save my pennies and develop a bank account. The lesson I learned in connection with that process was the most important thing in connection with my career. It has been a successful one and all you need to do to corroborate my statement is to make any inquiry about me in any of the banks of Los Angeles. I wanted you to know this and have taken this occasion to introduce myself to you and to tell you this brief story because I think you ought, in the promotion of that wonderful enterprise, to have this as an object lesson in the continuance of your good work."

I think we have demonstrated in the growth of the school savings bank in our country its value as a concomitant of our best educational processes, but I feel

that we have not used it for all it is worth in giving tuition in banking methods that might very profitably be carried on as an intrinsic part of the processes involved in the success of the school savings bank as a wholesome educational process in our schools.

It seems to me that while we have been largely successful in the primary schools, we have not carried into our high schools the same enthusiasm that we have engendered in the primary departments.

The Spring Meeting

(Continued from page 1079)

ers Association was admittedly twenty-five years ahead of all other businesses in this movement.

C. E. McCutchen, Chairman of the Membership Committee, reported that there are relatively fewer banks in the United States that are not members of the American Bankers Association than at any time in the history of the organization. As a result of the developments of the past six months 68.7 per cent of the total eligible banking institutions in the United States are now members of the Association as compared with 68 per cent a year ago. The total of delinquent members for the current year, he reported, is the lowest in eight years.

Coverage for Banks

THE report of the Protective Committee was submitted by Deputy Manager James E. Baum who said that the records of the department show that the same methods by which banks have repeatedly been victimized and sometimes completely looted through criminal acts, as have characterized criminal operations against banks ever since the Protective Committee began to function in 1921, are still being pursued.

W. F. Keyser, Chairman of the Insurance Committee, described the progress made during the year in establishing broader and more clarified coverage for banks along various lines. Among the results obtained was the notification from the chairman of the surety association's special committee that following consideration of the American Bankers Association's Insurance Committee's recommendation considerable progress has been made in redrafting various forms and preparing new ones.

M. R. Sturtevant, Chairman of the Committee on Federal Legislation, reported that the chief line of the committee's activity had been to cooperate with the Special Committee on Section 5219 United States Revised Statutes, covering the taxation of national banks, in opposing any amendments to that section.

Strongly Fortified

CHARLES P. BLINN, JR., Chairman of the Special Committee on Section 5219, told of the determined opposition which had been registered against any change in the Federal law and reported various state legislative measures which indicate a tendency in certain states toward local solution of the tax problem and lessen, to an extent, he declared, the motive power behind the appeal to Congress for a change in the Federal statute.

"Your Committee," Mr. Blinn said, "feels more strongly fortified than ever before with arguments and statistics to demonstrate that Section 5219 needs no further amendment by Congress. While it anticipates a determined effort to procure an amendment, it looks forward

with considerable confidence in its ability to oppose successfully any amendment and in this connection it suggests the adoption by the respective State Bankers Associations, at their coming conventions, of appropriate resolutions demanding the retention of the protective principle of Section 5219 without amendment as necessary to the continuance of the National Bank System and invites as well the cooperation of members generally in the carrying out of its work."

The efforts being made to oppose any amendment to Section 5219 were reviewed by Thomas B. Paton, General Counsel of the Association, in an article in the April issue of the JOURNAL.

William S. Irish, Chairman of the Committee on State Legislation, reported that foremost among the Committee's activities has been the promotion of the new uniform bank collection code for passage by state legislatures, which has been enacted into law by several of them.

Thornton Cooke, Chairman of the Committee on Taxation, declared in his report that there had been thus far in 1929 more sound state legislation in the field of bank taxation than ever before in a single year and that at the moment the situation in Congress is good.

New Appointments

RESIGNATIONS and appointments to fill vacancies announced at the meeting were as follows:

Colorado—Clark G. Mitchell of Denver resigned on account of being member of the Executive Committee of the Clearing-house Section. Succeeded by Roy Cox, president, Trinidad National Bank, Trinidad.

Roy Cox of Trinidad later became ineligible on account of severing banking connections. Vacancy not filled.

Florida—Cary A. Hardee of Live Oak resigned because membership in Florida dropped below number necessary for two Council members.

Iowa—Emil Webbles of Burlington, ineligible—out of banking business. Succeeded by Herbert L. Horton, vice-president, Des Moines National Bank, Des Moines.

M. W. Ellis of Charles City resigned on account of removal to another state. Vacancy not filled because of membership in Iowa having dropped below seven hundred.

Minnesota—J. J. Maloney of Heron Lake resigned—no longer officer or director of member bank in Minnesota. Succeeded by G. A. Haven, president, First State Bank, Chatfield.

J. H. Ingwersen of Duluth resigned on account of ill health and removal to another state. Succeeded by Walter L. Brooks, president, Northern National Bank, Bemidji.

Oklahoma—E. D. Kilpatrick of LeFlore, ineligible—out of banking business. Succeeded by T. J. Hartman, president, Producers National Bank, Tulsa.

Oregon—E. C. Sammons of Portland resigned—because of removal to another state. Succeeded by Keith Powell, president, Bank of Woodburn, at Woodburn.

Pennsylvania—Harry J. Haas of Philadelphia resigned on account of holding office of vice-president of National Bank Division. Succeeded by J. S. McCulloch, president, Union Bank & Trust Company, Philadelphia.

J. S. McCulloch of Philadelphia, ineligible—having severed banking connections. Succeeded by Herbert W. Goodall, president, Tradesmen's National Bank & Trust Company, Philadelphia.

All the above appointees will serve as Council members until the next convention of their respective state associations.

Condition of Business

(*Continued from page* 1138)

now is that poorer earnings in the third and fourth quarters will bring about their own readjustment of stock prices and a corresponding liquidation of credit tied up in the securities markets.

Bond Markets Not Yet Revived

IT IS hardly consistent to say that the credit strain, combined with expected seasonal requirements from commercial quarters and the over-confident temper of the stock market, all forecast continued firm money for some time to come, and in the same breath to say that the bond market can be revived and thereby furnish funds to carry out building construction, municipal improvements and foreign financing. We are now beginning to realize that many foreign nations have been able to pay the interest on their loans only through the proceeds of additional loans, and when further borrowing is stopped their exchanges become seriously depressed. We are now a "creditor" country to the extent of over $15,000,000,000, the dividends and interest on which amount to perhaps $800,000,000, in addition to which foreign nations are paying us on account of war debts some $200,000,000 annually (95 per cent of which is from Great Britain).

From the tabulation on page 1138 of all major issues of $5,000,000 or over during the month it will be observed that there was not a single foreign offering included. The average rate is 5.8 per cent! The city of Chicago sold $50,000,000 tax anticipation warrants on a basis to yield 5.60 per cent!

The Outlook for Money

CONDITIONS in the money market continue to be the one factor out of line with the generally satisfactory business situation as seen by leading banks. A certain amount of uncertainty as to the probable trend of rates is perhaps mainly responsible for the viewpoint on money.

Asserting that American business is justified in looking forward to general prosperity for some time, the Guaranty Trust Company of New York says:

"The most conspicuous change during the past year has been in the level of money rates; and the present state of business gives little reason to believe that this change need bring about any serious difficulty.

"Seldom, if ever, has the business situation in the United States presented a more complete picture of prosperity than it does today. The production and distribution of commodities are at record levels; wages are high and employment is large; the earning position of most of the large corporations is very favorable; optimism is general among all classes of the population; and both the growth of established enterprises and the forma-

tion of new ones are proceeding rapidly. To be sure, some important industries are by no means in an enviable position, but such irregularites always exist, even in the most prosperous times.

A somewhat less optimistic view is taken by the National City Bank of New York. Discussing credit conditions, it says:

"With business generally in satisfactory shape from the standpoint of both volume and profits, the one jarring note of importance lies in the continued tightness of money which manifests itself in the highest rates of interest since the deflation period of 1920-21, and in the practical destruction of a bond market. Although thus far business has shown surprisingly little adverse effect from these unfavorable conditions, partly due to the policy of banks in granting preferential rates to industry, and partly to the success of many corporations in financing long term needs through stocks in lieu of bonds, it would be contrary to the experience of the past for this immunity to be continued indefinitely. Unless some way is soon found whereby the existing credit situation can be cured and rates restored to normal levels it is difficult to see how a check to business can be long postponed.

"Already the tight money conditions have affected building, and the volume of new construction work coming forward in recent months has shown a considerable decline. According to the records of the F. W. Dodge Corporation, the value of new contracts awarded during the first quarter of the year fell 15 per cent behind those of the first quarter of last year, with the loss centered chiefly in residential building which was off 34 per cent and public works and utilities which were down 18 per cent, while non-residential contracts were up 11 per cent.

"While it is true that the March figures of new plans filed with the building departments of leading cities would indicate some revival of activity, it is to be doubted that so long as speculation on the stock exchange continues to absorb so large a proportion of the surplus funds of the country the building industry can attain that full measure of prosperity without which business loses one of its most important sustaining influences."

International reactions to developments in the American money market are described by Barclays Bank, Ltd., of London, which reports:

"The London-New York exchange has been irregular and sensitive and the monetary position in the United States, arising from the widespread speculation in stocks and shares in that country, has continued to be the dominating influence. Notwithstanding the raising of the British bank rate on Feb. 7, market rates in London remain lower than in New York, and from time to time the exchange quotation has not been far removed from the gold export point. Fortunately, shipments of the metal from this country to the United States have been avoided and the Bank of England has been able to purchase considerable gold from South Africa.

Business Profits

REPORTS of earnings of 574 industrial and mercantile concerns show that net profits of these companies in 1928 totaled 24 per cent more than in 1927, and 15 per cent more than in 1926, the previous high year of industrial profits. These figures are perhaps somewhat more favorable than would be shown by a more complete tabulation. The 574 companies included constitute, of course, only a small fraction of all industrial establishments in the country and in the past the returns from all companies have presented a less favorable situation than have the returns from the companies included in these compilations.

Constructive Savings Through Clubs

By CHARLES W. FOX

Vice-president, Whitney-Central Trust and Savings Bank, New Orleans

IF the merchants can, by the installment plan, convince the public of the advantage of spending before they have saved, why should not the bankers, by means of the club plan, convince the same public of the great advantage of saving on the installment plan for future contingencies? That the club plan appeals to all classes, goes without saying. People who would hesitate to enter a bank for the first time to open a savings or checking account, will be drawn to a bank which advertises a club, and these people are in a measure the very kind of people which the banks should try to cultivate.

The figure for the year of 1927 for the United States showed a total Christmas savings deposit of $501,336,000, which was an increase over 1926 of $102,000,000 or 26 per cent, five times the amount in 1920. Eight thousand banks are giving service through Christmas savings accounts and each year hundreds of banks are adding various club department services to broaden the scope of their facilities for the benefit of their friends and patrons. The club plans have given the general public a truer idea as to the banks' attitude toward small accounts, for by these very accounts the banks have proved their sincerity in soliciting small accounts.

The club idea has become one of the accepted functions of the bank, and while probably not a profit making operation of itself, it does a multiple service and otherwise acts as a feeder for other business for the bank in a general way. It increases bank deposits, because all the money available at the time the accounts are released, is not spent, but on the contrary a fair percentage is deposited in regular savings accounts and what is spent finally finds its way back into the banks.

There is a total Christmas club membership of over 8,000,000 with deposits of $550,000,000 and, based upon a direct by mail questionnaire to members, we find that out of that amount:

$165,000,000 was used for permanent thrift or savings accounts or investments.
$213,000,000 for immediate Christmas purchases.
$72,000,000 for year and commitments and payments on installment purchases.
$30,000,000 for insurance premiums.
$29,000,000 for payment of mortgage or interest.
$25,000,000 for taxes.
$11,000,000 for education.
$5,000,000 for charity.

An analysis of these figures is very impressive in that we find that over 60 per cent of this large sum is distributed for constructive purposes and such a percentage shows the collateral benefit and justification for the banks in sponsoring such accounts.

Our own experience shows that we just about "break even" on our Christmas savings accounts, when we take into consideration such expenses as passbooks, or cards, checks, envelopes, enclosures, advertising, postage, display signs, payroll and interest. However, it must be realized that we are building for the future; that the development of these clubs, regardless of whether they are or are not productive of profits, is spreading the idea of thrift among our people, teaching them one of the services of the bank through which contact they will eventually learn of others and benefit by them.

This movement may be looked upon as a banking educational campaign wherein we are doing a real and immediate service to the people of our community, extending the circle of the bank's friends, and which in the course of time it seems to me cannot fail to benefit and greatly promote the future growth of banking institutions.

Total net profits of eighty-eight Canadian corporations in 1928 amounted to $130,553,042 as compared with $102,466,622 the previous year, an increase of 27½ per cent.

INDEX TO ADVERTISERS

Statement of Ownership

¶STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, of AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., for April 1, 1929.

¶State of New York, county of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who, having been duly sworn according to law, deposes and says that he is the editor of the AMERICAN BANKERS ASSOCIATION JOURNAL and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

¶1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd Street, New York, N. Y.; editor, James E. Clark, 110 East 42nd Street, New York, N. Y.; managing editor, none; business manager, James E. Clark, 110 East 42nd Street, New York, N. Y.

¶2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) The American Bankers Association, 110 East 42nd Street, New York, N. Y. (A voluntary, unincorporated association of banks: Craig B. Hazlewood, Union Trust Company, Chicago, Ill., president and Fred N. Shepherd, 110 East 42nd Street, New York, N. Y., executive manager.

¶3. That the known bondholders, mortgagees, and other security holders owning or holding one per cent or more of total amount of bonds, mortgages, or other securities are: None.

¶4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

¶5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is.—(This information is required from daily publications only.)

JAMES E. CLARK, Editor.

¶Sworn to and subscribed before me this 18th day of March, 1929.

¶Gladys E. Snyder, Notary Public, Bronx County; Bronx County Clerk No. 412, Reg. No. 3032D; New York County Clerk No. 2066, Reg. No. 0-29A.

¶Appointment expires March 30, 1930. [SEAL]

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

If More Banks Did This

THERE is a notion abroad that it is only the local chamber of commerce that should attempt to sell its community to the world.

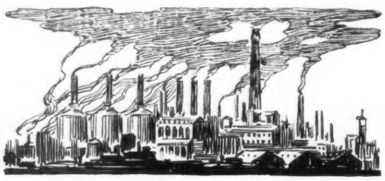
Well, perhaps, that is so but in the case of Rochester, Eastman has done a bit in putting his town on the map.

In the case of South Bend, Ind., Studebaker cannot be overlooked.

In the case of Detroit there is Mr. Ford.

In the case of Wilmington, Delaware, there is the du Pont family—and in a similar manner one might go over the map of the United States.

And that line of thought seems to lead to the conclusion that the best advertisements any town can have are not reading



matter in well-chosen phrases set in big type and little type and anon in some other type, but—rising above all that—a steady stream of products that go out into the world and are received with open arms everywhere.

If ever it amounted to very much, the day of generalites in city advertising seems to have passed.

What, then, can be done to help a community to grow?

If the whole answer is not contained in the following item clipped from the current issue of the publication called *Advertising & Selling*, this item may at least stimulate thinking:—

"Banks are certainly getting enterprising!

"In this morning's paper I find an advertisement of the Citizens Trust Company of Utica, N. Y., headed:

To an Automotive Accessory Manufacturer

"The text of this advertisement is worth printing, for it is an excellent example of this kind of advertising and might well be used as a pattern:

" 'Perhaps in the Metropolitan District there is an automotive accessory manufacturer, whose business is established and growing . . . but whose net profits are too low.

" 'It will pay this company to write the Citizens Trust Company. We believe we can prove that location in Utica will result in decreased overhead, a better labor situation, and increased profits.

"This bank, one of Central New York's largest commercial banks, is in a position to help such a manufacturer locate here and to aid in expanding his business.

" 'Write our Industrial Development Department, giving us full details about your business. Your letter will, of course, be held in confidence.'

"It used to be that such appeals were sponsored only by local Chambers of Commerce. What may we not expect if progressive banks get behind their communities in this way?"

A Way to More Profits

IN this day of "best sellers" and ingenious, snappy titles for intriguing books of fiction anything in print that is published under the title of "Proceedings," goes out into the world under a certain disability not easily overcome, because ordinarily there is nothing in the word that stimulates the imagination.

Too often it is regarded as a detour sign though the most famous book in the world is something of a book of proceedings, and out of the proceedings of many a deliberative body comes information which radically changes the courses of lives and the conduct of businesses.

There are still other exceptions to the dull in books of proceedings. Sometimes there is real gold in them. For instance, the proceedings of many of the conferences which have been held by the American Bankers Association contain information which, if acted upon, give banking institutions greater efficiency, greater security and more profit. Notable among such conferences was that on Bank Management held in Chicago in March. It was a veritable gold mine of information, especially for country bankers. It covered the whole range of commercial bank operation, and in that conference even veteran bankers received suggestions which they now are putting into operation in their banks—to the profit of themselves and their institutions.

The proceedings of that conference constitute what is really a handbook on banking, and the fame of the conference is such that the name "Proceedings" instead of diminishing interest increases interest. Over 5,000 copies of the proceedings of the Chicago conference had been ordered before the end of April.

It is a rare bank which will not be benefited if its officers and directors take unto themselves even a small part of what was told in that memorable meeting.

"Clearings" Antiquated

FRANK A. NELSON, manager of the Chattanooga Clearinghouse Association sends to us a copy of a resolution which that Association recently adopted discontinuing the old method of reporting clearings and declaring that in the future the Association will only "report the total amount of checks paid, or 'total debits.' "

"The recent consolidations of ours banks," writes Mr. Nelson have had the effect, as in other places, of materially decreasing our clearings, although the amount of actual business transacted is unaffected, and we feel that the time has come when the antiquated and misleading method of attempting to determine the amount of business in any city by the clearings should be discontinued and the much more reliable method of reporting total debits adopted.

"There has been some opposition on the part of commercial agencies, etc., to make any change, one alleged reason being that they had no figures for comparison. The Federal Reserve banks have, as you know, compiled data for total debits for the last ten years and these data can be obtained upon request.

"We feel that the banks in many cities would be greatly gratified to see this change made and trust that the great influence of your Journal will be used to bring this change about."

The subject is well worth discussing, and the JOURNAL invites its readers to present their ideas as to whether or not the day of "clearings" has gone by and should be superseded by something else.

Journal Pictures in School Work

FOR bankers who like to do missionary work in spreading a knowledge of banking an interesting suggestion comes to us from L. A. Young, president of the Farmers Trust Co., of Franklin, Ind. We quote:—

"I am taking the liberty to write you regarding the illustrated covers on the American Bankers Journal which have created quite a bit of interest in our county and city.

"The first picture occurring on the frontispiece which was painted by Mr. de Maris was the 'Colonial Money Transport.' Since that time I have kept all the front

covers and the articles accompanying them. I have gone to a number of High Schools of our county and also the consolidated schools and Parent Teachers Associations, making talks and exhibiting these pictures as a historical help to high school students. I find that their interest is very great.

"I understand from other counties that they are taking this matter up and using it as a basis for talks before high school students. I am working on a plan at the present time to have these pictures so that they can be shown on the screen with a lantern.

"The reason for my writing this letter is to congratulate your editor and his staff for these pictures. I think it is a very good means of advertising the banking business for our locality and wish to thank you for these pictures and the accompanying articles.

"I thank you for the knowledge which this has brought to our community."